

ANNUAL STATEMENT

OF THE

of _____

in the state of _____

TO THE

Insurance Department

OF THE

STATE OF

**FOR THE YEAR ENDED
December 31, 2004**

PROPERTY AND CASUALTY

2004



10836200420100100

ANNUAL STATEMENT

For the Year Ended December 31, 2004
OF THE CONDITION AND AFFAIRS OF THE

Golden Eagle Insurance Corporation

NAIC Group Code 0111 0111 NAIC Company Code 10836 Employer's ID Number 33-0763205
(Current Period) (Prior Period)

Organized under the Laws of California, State of Domicile or Port of Entry California

Country of Domicile United States of America

Incorporated: July 9, 1997 Commenced Business: August 22, 1997

Statutory Home Office: 525 B Street San Diego, CA 92101

Main Administrative Office: 525 B Street San Diego, CA 92101 619-744-6000

Mail Address: 525 B Street San Diego, CA 92101

Primary Location of Books and Records: 175 Berkeley Street Boston, MA 02117 617-357-9500

Internet Website Address: www.goldeneagle-ins.com

Statutory Statement Contact: Steven Latham 617-357-9500 43660
Steven.Latham@LibertyMutual.com 617-574-5955
(E-Mail Address) (Fax Number)

Policyowner Relations Contact: 525 B Street San Diego, CA 92101 619-744-6600

OFFICERS

Chairman of the Board
Roger Lucien Jean

Table with 2 columns: Name, Title. Rows include Francis John Kotarba (President & Chief Executive Officer), Timothy Ray Lickness (Secretary), Steven Nelson Martin (Treasurer).

Vice-Presidents

Table with 4 columns: Name, Title, Name, Title. Rows include Mark Edward Fiebrink (Executive Vice President), Bob David Effinger, Jr. (Executive Vice President), Michael Ray Christiansen (Executive Vice President).

DIRECTORS OR TRUSTEES

Table with 4 columns: Name, Title, Name, Title. Rows include Roger Lucien Jean, John Derek Doyle, James Francis Dore, Mark Edward Fiebrink, Francis John Kotarba, Amy Johnston Leddy, Christopher Charles Mansfield, William George Mersch, Bob David Effinger, Jr., Michael Ray Christiansen, Kenneth Paul Blackwood.

State of
County of ss

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature) Francis John Kotarba (Signature) Timothy Ray Lickness (Signature) Steven Nelson Martin
(Printed Name) (Printed Name) (Printed Name)
1. 2. 3.
President & Chief Executive Officer Secretary Treasurer
(Title) (Title) (Title)

Subscribed and sworn to before me this
day of April, 2005

a. Is this an original filing? YES [] NO [X]
b. If no: 1. State the amendment number 1
2. Date filed
3. Number of pages attached

ASSETS

	Current Year			Prior Year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 Net Admitted Assets
1. Bonds (Schedule D)	450,451,112		450,451,112	501,577,997
2. Stocks (Schedule D):				
2.1 Preferred stocks				
2.2 Common stocks	92,357,524		92,357,524	84,566,967
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens				
3.2 Other than first liens				
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$ 0 encumbrances)				
4.2 Properties held for the production of income (less \$ 0 encumbrances)				
4.3 Properties held for sale (less \$ 0 encumbrances)				
5. Cash (\$ (212,928), Schedule E-Part 1), cash equivalents (\$ 0, Schedule E-Part 2) and short-term investments (\$ 24,065,779, Schedule DA)	23,852,851		23,852,851	44,413,560
6. Contract loans (including \$ 0 premium notes)				
7. Other invested assets (Schedule BA)	1,976,186		1,976,186	2,978,749
8. Receivable for securities	10,751		10,751	
9. Aggregate write-ins for invested assets				
10. Subtotals, cash and invested assets (Lines 1 to 9)	568,648,424		568,648,424	633,537,273
11. Investment income due and accrued	5,380,064		5,380,064	5,786,463
12. Premiums and considerations:				
12.1 Uncollected premiums and agents' balances in the course of collection	18,851,151	1,688,935	17,162,216	22,135,043
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ 2,980,480 earned but unbilled premiums)	99,164,323	327,559	98,836,764	38,504,971
12.3 Accrued retrospective premiums				19,914,856
13. Reinsurance:				
13.1 Amounts recoverable from reinsurers	(203,589)		(203,589)	6,067,458
13.2 Funds held by or deposited with reinsured companies				
13.3 Other amounts receivable under reinsurance contracts				
14. Amounts receivable relating to uninsured plans				
15.1 Current federal and foreign income tax recoverable and interest thereon	7,466,633		7,466,633	
15.2 Net deferred tax asset	27,701,000	10,178,904	17,522,096	19,508,125
16. Guaranty funds receivable or on deposit	730,611		730,611	1,144,836
17. Electronic data processing equipment and software	113,623	19,397	94,226	351,740
18. Furniture and equipment, including health care delivery assets (\$ 0)	1,437,185	1,437,185		
19. Net adjustment in assets and liabilities due to foreign exchange rates				
20. Receivables from parent, subsidiaries and affiliates	34,869,343		34,869,343	11,270,523
21. Health care (\$ 0) and other amounts receivable				
22. Other assets nonadmitted	560,047	560,047		
23. Aggregate write-ins for other than invested assets	1,972,027	227,199	1,744,828	12,454,686
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	766,690,842	14,439,226	752,251,616	770,675,974
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26. Total (Lines 24 and 25)	766,690,842	14,439,226	752,251,616	770,675,974

DETAILS OF WRITE-INS				
0901.				
0902.				
0903.				
0998. Summary of remaining write-ins for Line 9 from overflow page				
0999. Totals (Lines 0901 through 0903 + 0998) (Line 9 above)				
2301. Other assets	1,123,416	227,199	896,217	1,418,616
2302. Cash surrender value-life insurance				4,137,687
2303. Equities and deposits in pools and associations	848,611		848,611	1,203,217
2398. Summary of remaining write-ins for Line 23 from overflow page				5,695,166
2399. Totals (Lines 2301 through 2303 + 2398) (Line 23 above)	1,972,027	227,199	1,744,828	12,454,686

LIABILITIES, SURPLUS AND OTHER FUNDS	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 34, Column 8)	228,017,584	329,682,944
2. Reinsurance payable on paid loss and loss adjustment expenses (Schedule F, Part 1, Column 6)		
3. Loss adjustment expenses (Part 2A, Line 34, Column 9)	54,666,850	65,191,648
4. Commissions payable, contingent commissions and other similar charges	13,309,934	3,066,416
5. Other expenses (excluding taxes, licenses and fees)	1,622,997	9,779,395
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	5,376,495	8,956,884
7.1 Current federal and foreign income taxes (including \$ 0 on realized capital gains (losses))		1,678,472
7.2 Net deferred tax liability		
8. Borrowed money \$ 0 and interest thereon \$ 0		
9. Unearned premiums (Part 1A, Line 37, Column 5) (after deducting unearned premiums for ceded reinsurance of \$ 23,662,087 and including warranty reserves of \$ 0)	179,590,789	95,881,514
10. Advance premium	692,257	958,386
11. Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders		87,704
12. Ceded reinsurance premiums payable (net of ceding commissions)	9,790	311,519
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)		
14. Amounts withheld or retained by company for account of others	258,722	814,543
15. Remittances and items not allocated		
16. Provision for reinsurance (Schedule F, Part 7)		673,000
17. Net adjustments in assets and liabilities due to foreign exchange rates		
18. Drafts outstanding	680	10,171,313
19. Payable to parent, subsidiaries and affiliates		
20. Payable for securities		992,299
21. Liability for amounts held under uninsured accident and health plans		
22. Capital notes \$ 0 and interest thereon \$ 0		
23. Aggregate write-ins for liabilities	4,818,270	7,445,211
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	488,364,368	535,691,248
25. Protected cell liabilities		
26. Total liabilities (Lines 24 and 25)	488,364,368	535,691,248
27. Aggregate write-ins for special surplus funds		27,889,917
28. Common capital stock	2,600,000	2,600,000
29. Preferred capital stock		
30. Aggregate write-ins for other than special surplus funds		
31. Surplus notes		
32. Gross paid in and contributed surplus	221,633,333	221,633,333
33. Unassigned funds (surplus)	39,653,915	(17,138,524)
34. Less treasury stock, at cost:		
34.1 0 shares common (value included in Line 28 \$ 0)		
34.2 0 shares preferred (value included in Line 29 \$ 0)		
35. Surplus as regards policyholders (Lines 27 to 33, less 34) (Page 4, Line 38)	263,887,248	234,984,726
36. TOTALS (Page 2, Line 26, Col. 3)	752,251,616	770,675,974

DETAILS OF WRITE-INS		
2301. Collateral held for securities loaned	4,151,108	42,002,593
2302. Amounts held under uninsured plans	(84,636)	13,573,694
2303. Other liabilities	751,798	5,770,921
2398. Summary of remaining write-ins for Line 23 from overflow page		(53,901,997)
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	4,818,270	7,445,211
2701. Special surplus from retroactive reinsurance		27,889,917
2702.		
2703.		
2798. Summary of remaining write-ins for Line 27 from overflow page		
2799. Totals (Lines 2701 through 2703 plus 2798) (Line 27 above)		27,889,917
3001.		
3002.		
3003.		
3098. Summary of remaining write-ins for Line 30 from overflow page		
3099. Totals (Lines 3001 through 3003 plus 3098) (Line 30 above)		

UNDERWRITING AND INVESTMENT EXHIBIT STATEMENT OF INCOME	1	2
UNDERWRITING INCOME	Current Year	Prior Year
1. Premiums earned (Part 1, Line 34, Column 4)	348,149,170	218,971,471
DEDUCTIONS		
2. Losses incurred (Part 2, Line 34, Column 7)	186,528,859	145,447,556
3. Loss expenses incurred (Part 3, Line 25, Column 1)	44,831,111	41,872,938
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)	117,501,810	53,493,147
5. Aggregate write-ins for underwriting deductions	(856,049)	16,771
6. Total underwriting deductions (Lines 2 through 5)	348,005,731	240,830,412
7. Net income of protected cells		
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	143,439	(21,858,941)
INVESTMENT INCOME		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	30,521,696	34,040,094
10. Net realized capital gains (losses) (Exhibit of Capital Gains (Losses))	3,869,974	2,682,377
11. Net investment gain (loss) (Lines 9 + 10)	34,391,670	36,722,471
OTHER INCOME		
12. Net gain (loss) from agents' or premium balances charged off (amount recovered \$ 14,136 amount charged off \$ 941,760)	(927,624)	(1,157,217)
13. Finance and service charges not included in premiums	646,537	1,334,769
14. Aggregate write-ins for miscellaneous income	486,477	(5,819,412)
15. Total other income (Lines 12 through 14)	205,390	(5,641,860)
16. Net income before dividends to policyholders and before federal and foreign income taxes (Lines 8 + 11 + 15)	34,740,499	9,221,670
17. Dividends to policyholders	479,018	(60,034)
18. Net income, after dividends to policyholders but before federal and foreign income taxes (Line 16 minus Line 17)	34,261,481	9,281,704
19. Federal and foreign income taxes incurred	10,224,164	(8,183,453)
20. Net income (Line 18 minus Line 19) (to Line 22)	24,037,317	17,465,157
CAPITAL AND SURPLUS ACCOUNT		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 38, Column 2)	234,984,726	206,894,989
GAINS AND (LOSSES) IN SURPLUS		
22. Net income (from Line 20)	24,037,317	17,465,157
23. Change in net unrealized capital gains or (losses)	5,303,600	9,899,113
24. Change in net unrealized foreign exchange capital gain (loss)		
25. Change in net deferred income tax	(2,364,910)	(8,469,222)
26. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26, Col. 3)	2,625,552	9,307,031
27. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)	673,000	(673,000)
28. Change in surplus notes		
29. Surplus (contributed to) withdrawn from protected cells		
30. Cumulative effect of changes in accounting principles		
31. Capital changes:		
31.1 Paid in		
31.2 Transferred from surplus (Stock Dividend)		
31.3 Transferred to surplus		
32. Surplus adjustments:		
32.1 Paid in		
32.2 Transferred to capital (Stock Dividend)		
32.3 Transferred from capital		
33. Net remittances from or (to) Home Office		
34. Dividends to stockholders		
35. Change in treasury stock (Page 3, Lines 34.1 and 34.2, Column 2 minus Column 1)		
36. Aggregate write-ins for gains and losses in surplus	(1,372,037)	560,658
37. Change in surplus as regards policyholders for the year (Lines 22 through 36)	28,902,522	28,089,737
38. Surplus as regards policyholders, December 31 current year (Lines 21 plus Line 37) (Page 3, Line 35)	263,887,248	234,984,726

DETAILS OF WRITE-INS		
0501. NC private passenger auto escrow	(856,049)	16,771
0502.		
0503.		
0598. Summary of remaining write-ins for Line 5 from overflow page		
0599. Totals (Lines 0501 through 0503 plus Line 0598) (Line 5 above)	(856,049)	16,771
1401. Retroactive reinsurance gain(loss)		(1,225,533)
1402. Other income(expense)	486,477	(4,593,879)
1403.		
1498. Summary of remaining write-ins for Line 14 from overflow page		
1499. Totals (Lines 1401 through 1403 plus Line 1498) (Line 14 above)	486,477	(5,819,412)
3601. Other adjustments to surplus	(1,372,037)	560,658
3602.		
3603.		
3698. Summary of remaining write-ins for Line 36 from overflow page		
3699. Totals (Lines 3601 through 3603 plus Line 3698) (Line 36 above)	(1,372,037)	560,658

CASH FLOW Cash from Operations	1	2
	Current Year	Prior Year
1. Premiums collected net of reinsurance	395,975,321	223,438,613
2. Net investment income	31,173,624	34,339,801
3. Miscellaneous income	(7,668,292)	(7,146,725)
4. Total (Lines 1 through 3)	419,480,653	250,631,689
5. Benefit and loss related payments	292,632,320	124,777,283
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts		
7. Commissions, expenses paid and aggregate write-ins for deductions	174,476,562	90,004,383
8. Dividends paid to policyholders	566,723	1,266,725
9. Federal and foreign income taxes paid (recovered) \$ 0 net of tax on capital gains (losses)	19,369,268	(3,249,738)
10. Total (Lines 5 through 9)	487,044,873	212,798,653
11. Net cash from operations (Line 4 minus Line 10)	(67,564,220)	37,833,036
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	318,073,355	235,414,171
12.2 Stocks		
12.3 Mortgage loans		
12.4 Real estate		
12.5 Other invested assets	1,040,410	1,512,225
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments		
12.7 Miscellaneous proceeds		
12.8 Total investment proceeds (Lines 12.1 to 12.7)	319,113,765	236,926,396
13. Cost of investments acquired (long-term only):		
13.1 Bonds	263,357,885	243,638,279
13.2 Stocks	2,486,957	2,784,569
13.3 Mortgage loans		
13.4 Real estate		
13.5 Other invested assets		2,990,700
13.6 Miscellaneous applications	1,003,049	15,941,880
13.7 Total investments acquired (Lines 13.1 to 13.6)	266,847,891	265,355,428
14. Net increase (decrease) in policy loans and premium notes		
15. Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14)	52,265,874	(28,429,032)
Cash from Financing and Miscellaneous Sources		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes		
16.2 Capital and paid in surplus, less treasury stock		
16.3 Borrowed funds		
16.4 Net deposits on deposit-type contracts and other insurance liabilities		
16.5 Dividends to stockholders		
16.6 Other cash provided (applied)	(5,262,363)	(5,008,953)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	(5,262,363)	(5,008,953)
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS		
18. Net change in cash and short-term investments (Line 11, plus Lines 15 and 17)	(20,560,709)	4,395,051
19. Cash and short-term investments:		
19.1 Beginning of year	44,413,560	40,018,509
19.2 End of year (Line 18 plus Line 19.1)	23,852,851	44,413,560

Note: Supplemental disclosures of cash flow information for non-cash transactions:

20.0001.		
20.0002.		
20.0003.		

UNDERWRITING AND INVESTMENT EXHIBIT
PART 1- PREMIUMS EARNED

Line of Business	1 Net Premiums Written per Column 6, Part 1B	2 Unearned Premiums Dec. 31 Prior Year - per Col. 3, Last Year's Part 1	3 Unearned Premiums Dec. 31 Current Year - per Col. 5 Part 1A	4 Premiums Earned During Year (Cols. 1 + 2 - 3)
1. Fire	3,858,692	1,939,711	2,145,962	3,652,441
2. Allied lines	4,855,739	788,994	1,917,248	3,727,485
3. Farmowners multiple peril	4,748,451	95,045	1,677,420	3,166,076
4. Homeowners multiple peril	33,023,871	16,057,097	17,832,253	31,248,715
5. Commercial multiple peril	163,678,979	3,543,478	57,385,707	109,836,750
6. Mortgage guaranty				
8. Ocean marine	(1,160,885)	1,160,885		
9. Inland marine	13,957,812	946,494	4,789,880	10,114,426
10. Financial guaranty				
11.1 Medical malpractice - occurrence	(499)	344		(155)
11.2 Medical malpractice - claims-made				
12. Earthquake	1,556,780	321,269	668,229	1,209,820
13. Group accident and health	(29,209)	29,209		
14. Credit accident and health (group and individual)				
15. Other accident and health	(50)	50		
16. Workers' compensation	66,686,551	(8,186,031)	18,071,701	40,428,819
17.1 Other liability - occurrence	23,147,676	3,255,069	9,262,626	17,140,119
17.2 Other liability - claims-made	(640,319)	1,727,800		1,087,481
18.1 Products liability - occurrence	582,907	(24,380)	214,803	343,724
18.2 Products liability - claims-made	(1,345)	1,345		
19.1, 19.2 Private passenger auto liability	25,456,681	26,858,651	16,759,375	35,555,957
19.3, 19.4 Commercial auto liability	68,151,642	3,393,233	24,471,836	47,073,039
21. Auto physical damage	44,965,997	18,815,509	20,761,367	43,020,139
22. Aircraft (all perils)	(277,995)	276,203		(1,792)
23. Fidelity	(28,519)	50,766	(95,761)	118,008
24. Surety	(1,990,010)	2,396,503	344,550	61,943
26. Burglary and theft	90,331	7,603	22,727	75,207
27. Boiler and machinery	59,721	31,372	52,827	38,266
28. Credit				
29. International				
30. Reinsurance-Nonproportional Assumed Property	(70,905)	70,892		(13)
31. Reinsurance-Nonproportional Assumed Liability	(303,051)	310,493		7,442
32. Reinsurance-Nonproportional Assumed Financial Lines				
33. Aggregate write-ins for other lines of business				
34. TOTALS	450,319,043	73,867,604	176,282,750	347,903,897

DETAILS OF WRITE-INS				
3301.				
3302.				
3303.				
3398. Summary of remaining write-ins for Line 33 from overflow page				
3399. Totals (Lines 3301 through 3303 plus 3398) (Line 33 above)				

UNDERWRITING AND INVESTMENT EXHIBIT
PART 1A - RECAPITULATION OF ALL PREMIUMS

(a) Gross premiums (less reinsurance) and unearned premiums on all unexpired risks and reserve for return premiums under rate credit or retrospective rating plans based upon experience, viz:

Line of Business	1 Amount Unearned (Running One Year or Less from Date of Policy) (b)	2 Amount Unearned (Running More Than One Year from Date of Policy) (b)	3 Earned but Unbilled Premium	4 Reserve for Rate Credits and Retrospective Adjustments Based on Experience	5 Total Reserve for Unearned Premiums Cols. 1 + 2 + 3 + 4
1. Fire	2,145,962				2,145,962
2. Allied lines	1,917,248				1,917,248
3. Farmowners multiple peril	1,677,420				1,677,420
4. Homeowners multiple peril	17,832,253				17,832,253
5. Commercial multiple peril	58,769,122		(1,383,415)		57,385,707
6. Mortgage guaranty					
8. Ocean marine					
9. Inland marine	4,789,880				4,789,880
10. Financial guaranty					
11.1 Medical malpractice - occurrence					
11.2 Medical malpractice - claims-made					
12. Earthquake	668,229				668,229
13. Group accident and health					
14. Credit accident and health (group and individual)					
15. Other accident and health					
16. Workers' compensation	19,555,732		(1,484,030)		18,071,702
17.1 Other liability - occurrence	9,701,722		(439,096)		9,262,626
17.2 Other liability - claims-made					
18.1 Products liability - occurrence	216,002		(1,200)		214,802
18.2 Products liability - claims-made					
19.1, 19.2 Private passenger auto liability	16,759,375				16,759,375
19.3, 19.4 Commercial auto liability	24,471,836				24,471,836
21. Auto physical damage	20,761,367				20,761,367
22. Aircraft (all perils)					
23. Fidelity	(172,854)	77,093			(95,761)
24. Surety	69,217	275,332			344,549
26. Burglary and theft	22,727				22,727
27. Boiler and machinery	53,125		(298)		52,827
28. Credit					
29. International					
30. Reinsurance-Nonproportional Assumed Property					
31. Reinsurance-Nonproportional Assumed Liability					
32. Reinsurance-Nonproportional Assumed Financial Lines					
33. Aggregate write-ins for other lines of business					
34. TOTALS	179,238,363	352,425	(3,308,039)		176,282,749
35. Accrued retrospective premiums based on experience					3,308,039
36. Earned but unbilled premiums					
37. Balance (Sum of Line 34 through 36)					179,590,788

DETAILS OF WRITE-INS					
3301.					
3302.					
3303.					
3398. Summary of remaining write-ins for Line 33 from overflow page					
3399. Totals (Lines 3301 through 3303 plus 3398) (Line 33 above)					

- (a) By gross premiums is meant the aggregate of all the premiums written in the policies or renewals in force.
 Are they so returned in this statement? Yes [X] No []
- (b) State here basis of computation used in each case Daily pro rata.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1B - PREMIUMS WRITTEN

Gross Premiums (Less Return Premiums), Including Policy and Membership Fees
Written and Renewed During Year

Line of Business	1 Direct Business (a)	Reinsurance Assumed		Reinsurance Ceded		6 Net Premiums Written Cols. 1 + 2 + 3 - 4 - 5
		2 From Affiliates	3 From Non- Affiliates	4 To Affiliates	5 To Non- Affiliates	
1. Fire	208,367	3,858,692		208,367		3,858,692
2. Allied lines	75,492	4,855,739		75,492		4,855,739
3. Farmowners multiple peril	22	4,748,451		22		4,748,451
4. Homeowners multiple peril		33,023,871				33,023,871
5. Commercial multiple peril	26,395,017	163,678,979		26,395,017		163,678,979
6. Mortgage guaranty						
8. Ocean marine		(1,160,885)				(1,160,885)
9. Inland marine	214,136	13,957,812		214,136		13,957,812
10. Financial guaranty						
11.1 Medical malpractice - occurrence		(344)				(344)
11.2 Medical malpractice - claims-made						
12. Earthquake	211,909	1,556,780		211,909		1,556,780
13. Group accident and health		(29,209)				(29,209)
14. Credit accident and health (group and individual)						
15. Other accident and health		(50)				(50)
16. Workers' compensation	9,318	66,686,551		9,319		66,686,550
17.1 Other liability - occurrence	16,986,108	23,147,676		16,986,108		23,147,676
17.2 Other liability - claims-made		(640,319)				(640,319)
18.1 Products liability - occurrence	4,092	582,907		4,092		582,907
18.2 Products liability - claims-made		(1,345)				(1,345)
19.1, 19.2 Private passenger auto liability		25,456,681				25,456,681
19.3, 19.4 Commercial auto liability	2,481,733	68,612,148		2,942,395		68,151,486
21. Auto physical damage	942,825	44,973,400		950,227		44,965,998
22. Aircraft (all perils)		(277,995)				(277,995)
23. Fidelity		(28,519)				(28,519)
24. Surety		(1,990,010)				(1,990,010)
26. Burglary and theft	503	90,331		503		90,331
27. Boiler and machinery	3,893	59,721		3,893		59,721
28. Credit						
29. International						
30. Reinsurance-Nonproportional Assumed Property	X X X	(70,905)				(70,905)
31. Reinsurance-Nonproportional Assumed Liability	X X X	(303,051)				(303,051)
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X					
33. Aggregate write-ins for other lines of business						
34. TOTALS	47,533,415	450,787,107		48,001,480		450,319,042

DETAILS OF WRITE-INS						
3301.						
3302.						
3303.						
3398. Summary of remaining write-ins for Line 33 from overflow page						
3399. Totals (Lines 3301 through 3303 plus 3398) (Line 33 above)						

(a) Does the company's direct premiums written include premiums recorded on an installment basis? Yes [] No [X]
 If yes: 1. The amount of such installment premiums \$ 0
 2. Amount at which such installment premiums would have been reported had they been recorded on an annualized basis \$ 0

**UNDERWRITING AND INVESTMENT EXHIBIT
PART 2 - LOSSES PAID AND INCURRED**

Line of Business	Losses Paid Less Salvage				5 Net Losses Unpaid Current Year (Part 2A, Col. 8)	6 Net Losses Unpaid Prior Year	7 Losses Incurred Current Year (Cols. 4 + 5 - 6)	8 Percentage of Losses Incurred (Col. 7, Part 2) to Premiums Earned (Col. 4, Part 1)
	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Recovered	4 Net Payments (Cols. 1 + 2 - 3)				
1. Fire	811,101	2,302,453	811,101	2,302,453	609,656	1,801,642	1,110,467	30.403
2. Allied lines	162,568	1,593,220	162,568	1,593,220	305,137	878,889	1,019,468	27.350
3. Farmowners multiple peril	1,551,508	745,033	1,551,508	745,033	785,164	73,276	1,456,921	46.017
4. Homeowners multiple peril	2,200,613	15,139,774	2,200,613	15,139,774	7,016,857	6,659,562	15,497,069	49.593
5. Commercial multiple peril	19,420,809	(6,157,698)	19,420,809	(6,157,698)	69,257,965	9,384,761	53,715,506	48.905
6. Mortgage guaranty								
8. Ocean marine		1,387,166		1,387,166	66,568	1,417,852	35,882	
9. Inland marine	71,140	3,059,861	71,140	3,059,861	961,643	1,049,004	2,972,500	29.389
10. Financial guaranty								
11.1 Medical malpractice - occurrence		3,905		3,905		3,905		
11.2 Medical malpractice - claims - made								
12. Earthquake		169,661		169,661	21,665	183,082	8,244	0.681
13. Group accident and health		12,666,360		12,666,360		12,666,360		
14. Credit accident and health (group and individual)								
15. Other accident and health		117,207		117,207		117,207		
16. Workers' compensation	50,342,697	137,384,854	52,323,359	135,404,192	53,329,809	161,748,095	26,985,906	66.749
17.1 Other liability - occurrence	8,014,076	28,392,760	8,014,076	28,392,760	17,383,565	38,370,386	7,405,939	43.208
17.2 Other liability - claims - made		3,212,643		3,212,643		3,462,860	(250,217)	(23.009)
18.1 Products liability - occurrence	1,372	14,679,543	1,372	14,679,543	350,364	14,828,643	201,264	58.554
18.2 Products liability - claims - made		116,499		116,499		116,499		
19.1, 19.2 Private passenger auto liability		47,104,670		47,104,670	35,256,521	54,451,324	27,909,867	78.496
19.3, 19.4 Commercial auto liability	6,227,173	4,798,344	6,696,187	4,329,330	40,308,150	15,807,559	28,829,921	61.245
21. Auto physical damage	254,977	17,247,422	361,517	17,140,882	924,227	(1,552,983)	19,618,092	45.602
22. Aircraft (all perils)		1,313,990		1,313,990		1,311,298	2,692	(150.223)
23. Fidelity		151,262		151,262	10,962	151,121	11,103	9.409
24. Surety		1,134,805		1,134,805	143,339	1,242,695	35,449	57.228
26. Burglary and theft		56,261		56,261	465,073	70,789	450,545	599.073
27. Boiler and machinery	8,422	17,784	8,422	17,784	76,441	41,160	53,065	138.674
28. Credit		2,227		2,227		2,227		
29. International								
30. Reinsurance-Nonproportional Assumed Property	X X X	450,543		450,543	744,478	449,914	745,107	(5,731,592.308)
31. Reinsurance-Nonproportional Assumed Liability	X X X	4,167,125		4,167,125		4,911,602	(744,477)	(10,003.722)
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X	34,216		34,216		34,216		
33. Aggregate write-ins for other lines of business								
34. TOTALS	89,066,456	291,291,890	91,622,672	288,735,674	228,017,584	329,682,945	187,070,313	53.771

DETAILS OF WRITE-INS								
3301.								
3302.								
3303.								
3398. Summary of remaining write-ins for Line 33 from overflow page								
3399. Totals (Lines 3301 through 3303 + 3398) (Line 33 above)								

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UNDERWRITING AND INVESTMENT EXHIBIT
PART 2A - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Line of Business	Reported Losses				Incurred But Not Reported			8 Net Losses Unpaid (Cols. 4 + 5 + 6 - 7)	9 Unpaid Loss Adjustment Expenses
	1 Direct	2 Reinsurance Assumed	3 Deduct Reinsurance Recoverable from Authorized and Unauthorized Companies	4 Net Losses Excl. Incurred But Not Reported (Cols. 1 + 2 - 3)	5 Direct	6 Reinsurance Assumed	7 Reinsurance Ceded		
1. Fire	634,511	508,931	634,511	508,931	(54,117)	100,725	(54,117)	609,656	3,368
2. Allied lines	70,100	229,808	70,100	229,808	(8,222)	75,329	(8,222)	305,137	60,976
3. Farmowners multiple peril	75,000	589,188	75,000	589,188	12	195,976	12	785,164	142,469
4. Homeowners multiple peril	1,479,465	5,770,516	1,479,465	5,770,516	200,000	1,246,341	200,000	7,016,857	1,422,333
5. Commercial multiple peril	13,168,907	44,277,271	13,168,907	44,277,271	7,131,014	24,980,693	7,131,014	69,257,964	27,808,264
6. Mortgage guaranty									
8. Ocean marine		19,146		19,146		47,422		66,568	9,140
9. Inland marine	122,053	634,829	122,053	634,829	(11,004)	326,813	(11,004)	961,642	260,006
10. Financial guaranty									
11.1 Medical malpractice - occurrence									
11.2 Medical malpractice - claims - made									
12. Earthquake					7,411	21,665	7,411	21,665	(29,554)
13. Group accident and health								(a)	305
14. Credit accident and health (group and individual)								(a)	22
15. Other accident and health									
16. Workers' compensation	118,315,779	51,073,012	136,050,669	33,338,122	39,520,868	23,860,233	43,389,415	53,329,808	7,363,130
17.1 Other liability - occurrence	11,591,762	6,636,054	11,591,762	6,636,054	19,497,917	10,747,511	19,497,916	17,383,566	3,140,293
17.2 Other liability - claims - made									
18.1 Products liability - occurrence	29,101	127,411	29,101	127,411	33,415	222,953	33,415	350,364	273,918
18.2 Products liability - claims - made									147
19.1, 19.2 Private passenger auto liability		25,126,780		25,126,780		10,129,740		35,256,520	6,786,427
19.3, 19.4 Commercial auto liability	2,856,680	22,324,949	3,688,540	21,493,089	1,464,689	18,815,063	1,464,689	40,308,152	6,249,430
21. Auto physical damage	11,407	1,444,658	11,407	1,444,658	(46,082)	(520,431)	(46,082)	924,227	968,482
22. Aircraft (all perils)									
23. Fidelity		5,913		5,913		5,050		10,963	29,983
24. Surety	8,098	(45,731)	8,098	(45,731)	51,245	189,070	51,245	143,339	203,968
26. Burglary and theft		530		530	(4,644)	464,543	(4,644)	465,073	(47,677)
27. Boiler and machinery	500	6,241	500	6,241	1,685	70,200	1,685	76,441	21,420
28. Credit									
29. International									
30. Reinsurance-Nonproportional Assumed Property	X X X	72,226		72,226	X X X	672,252		744,478	
31. Reinsurance-Nonproportional Assumed Liability	X X X				X X X				
32. Reinsurance-Nonproportional Assumed Financial Lines	X X X				X X X				
33. Aggregate write-ins for other lines of business									
34. TOTALS	148,363,363	158,801,732	166,930,113	140,234,982	67,784,187	91,651,148	71,652,733	228,017,584	54,666,850

DETAILS OF WRITE-INS									
3301.									
3302.									
3303.									
3398. Summary of remaining write-ins for Line 33 from overflow page									
3399. Totals (Lines 3301 through 3303 + 3398) (Line 33 above)									

(a) Including \$ 0 for present value of life indemnity claims.

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**UNDERWRITING AND INVESTMENT EXHIBIT
PART 3 - EXPENSES**

	1	2	3	4
	Loss Adjustment Expenses	Other Underwriting Expenses	Investment Expenses	Total
1. Claim adjustment services:				
1.1 Direct	9,241,218			9,241,218
1.2 Reinsurance assumed	15,942,907			15,942,907
1.3 Reinsurance ceded	1,608,150			1,608,150
1.4 Net claim adjustment service (1.1 + 1.2 - 1.3)	23,575,975			23,575,975
2. Commission and brokerage:				
2.1 Direct excluding contingent		7,471,459		7,471,459
2.2 Reinsurance assumed excluding contingent		55,910,211		55,910,211
2.3 Reinsurance ceded excluding contingent		7,620,995		7,620,995
2.4 Contingent-direct		517,719		517,719
2.5 Contingent-reinsurance assumed		12,432,813		12,432,813
2.6 Contingent-reinsurance ceded		517,719		517,719
2.7 Policy and membership fees				
2.8 Net commission and brokerage (2.1 + 2.2 - 2.3 + 2.4 + 2.5 - 2.6 + 2.7)		68,193,488		68,193,488
3. Allowances to manager and agents		106,568		106,568
4. Advertising		915,846		915,846
5. Boards, bureaus and associations	63,053	728,946		791,999
6. Surveys and underwriting reports	256	1,961,116		1,961,372
7. Audit of assureds' records		30		30
8. Salary and related items:				
8.1 Salaries	12,692,965	21,182,099	37,007	33,912,071
8.2 Payroll taxes	866,437	1,520,372	6,977	2,393,786
9. Employee relations and welfare	2,109,172	3,815,913	19,110	5,944,195
10. Insurance	457,358	243,044		700,402
11. Directors' fees	119	3,727		3,846
12. Travel and travel items	713,232	1,770,477		2,483,709
13. Rent and rent items	1,128,688	1,946,080		3,074,768
14. Equipment	798,745	1,484,376	1,517	2,284,638
15. Cost or depreciation of EDP equipment and software	697,902	1,276,706		1,974,608
16. Printing and stationery	206,392	526,924	607	733,923
17. Postage, telephone and telegraph, exchange and express	592,892	1,467,083	303	2,060,278
18. Legal and auditing	126,299	330,564	140,140	597,003
19. Totals (Lines 3 to 18)	20,453,510	39,279,871	205,661	59,939,042
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$ 80,624		9,263,021		9,263,021
20.2 Insurance department licenses and fees		417,634		417,634
20.3 Gross guaranty association assessments		132,772		132,772
20.4 All other (excluding federal and foreign income and real estate)		215,022		215,022
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)		10,028,449		10,028,449
21. Real estate expenses				
22. Real estate taxes				
23. Reimbursements by uninsured accident and health plans				
24. Aggregate write-ins for miscellaneous expenses	801,626			801,626
25. Total expenses incurred	44,831,111	117,501,808	205,661	(a) 162,538,580
26. Less unpaid expenses-current year	54,666,850	20,309,427		74,976,277
27. Add unpaid expenses-prior year	65,191,648	21,802,695		86,994,343
28. Amounts receivable relating to uninsured accident and health plans, prior year				
29. Amounts receivable relating to uninsured accident and health plans, current year				
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	55,355,909	118,995,076	205,661	174,556,646

DETAILS OF WRITE-INS				
2401. Change in unallocated bulk reserves	801,626			801,626
2402.				
2403.				
2498. Summary of remaining write-ins for Line 24 from overflow page				
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)	801,626			801,626

(a) Includes management fees of \$ 205,660 to affiliates and \$ 0 to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. Government bonds	(a) 3,725,460	3,740,328
1.1 Bonds exempt from U.S. tax	(a)	
1.2 Other bonds (unaffiliated)	(a) 24,228,699	23,819,168
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b)	
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)		
2.21 Common stocks of affiliates	2,708,240	2,708,240
3. Mortgage loans	(c)	
4. Real estate	(d)	
5. Contract loans		
6. Cash, cash equivalents and short-term investments	(e) 231,927	242,392
7. Derivative instruments	(f)	
8. Other invested assets	177,742	155,541
9. Aggregate write-ins for investment income	61,687	61,687
10. Total gross investment income	31,133,755	30,727,356
11. Investment expenses		(g) 205,660
12. Investment taxes, licenses and fees, excluding federal income taxes		(g)
13. Interest expense		(h)
14. Depreciation on real estate and other invested assets		(i)
15. Aggregate write-ins for deductions from investment income		
16. Total deductions (Lines 11 through 15)		205,660
17. Net investment income (Line 10 minus Line 16)		30,521,696
DETAILS OF WRITE-INS		
0901. Miscellaneous Income/(Expense)	61,687	61,687
0902.		
0903.		
0998. Summary of remaining write-ins for Line 9 from overflow page		
0999. Totals (Lines 0901 through 0903) plus 0998 (Line 9, above)	61,687	61,687
1501.		
1502.		
1503.		
1598. Summary of remaining write-ins for Line 15 from overflow page		
1599. Totals (Lines 1501 through 1503) plus 1598 (Line 15, above)		

- (a) Includes \$ 523,405 accrual of discount less \$ 767,051 amortization of premium and less \$ 1,846,041 paid for accrued interest on purchases.
- (b) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued dividends on purchases.
- (c) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.
- (d) Includes \$ 0 for company's occupancy of its own buildings; and excludes \$ 0 interest on encumbrances.
- (e) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.
- (f) Includes \$ 0 accrual of discount less \$ 0 amortization of premium.
- (g) Includes \$ 205,660 investment expenses and \$ 0 investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
- (h) Includes \$ 0 interest on surplus notes and \$ 0 interest on capital notes.
- (i) Includes \$ 0 depreciation on real estate and \$ 0 depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

	1 Realized Gain (Loss) On Sales or Maturity	2 Other Realized Adjustments	3 Increases (Decreases) by Adjustment	4 Total
1. U.S. Government bonds	308,601			308,601
1.1 Bonds exempt from U.S. tax				
1.2 Other bonds (unaffiliated)	3,523,631			3,523,631
1.3 Bonds of affiliates				
2.1 Preferred stocks (unaffiliated)				
2.11 Preferred stocks of affiliates				
2.2 Common stocks (unaffiliated)			549,350	549,350
2.21 Common stocks of affiliates			4,754,250	4,754,250
3. Mortgage loans				
4. Real estate				
5. Contract loans				
6. Cash, cash equivalents and short-term investments				
7. Derivative instruments				
8. Other invested assets	39,730			39,730
9. Aggregate write-ins for capital gains (losses)	(1,987)			(1,987)
10. Total capital gains (losses)	3,869,975		5,303,600	9,173,575

DETAILS OF WRITE-INS				
0901. Miscellaneous Gains/(Losses)	(1,987)			(1,987)
0902.				
0903.				
0998. Summary of remaining write-ins for Line 9 from overflow page				
0999. Totals (Lines 0901 through 0903) plus 0998 (Line 9, above)	(1,987)			(1,987)

EXHIBIT OF NONADMITTED ASSETS

	1	2	3
	Current Year Total Nonadmitted Assets	Prior Year Total Nonadmitted Assets	Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D)			
2. Stocks (Schedule D):			
2.1 Preferred stocks			
2.2 Common stocks			
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens			
3.2 Other than first liens			
4. Real estate (Schedule A):			
4.1 Properties occupied by the company			
4.2 Properties held for the production of income			
4.3 Properties held for sale			
5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA)			
6. Contract loans			
7. Other invested assets (Schedule BA)			
8. Receivable for securities			
9. Aggregate write-ins for invested assets			
10. Subtotals, cash and invested assets (Lines 1 to 9)			
11. Investment income due and accrued			
12. Premiums and considerations:			
12.1 Uncollected premiums and agents' balances in the course of collection	1,688,935	331,456	(1,357,479)
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	327,559		(327,559)
12.3 Accrued retrospective premiums		2,099,053	2,099,053
13. Reinsurance:			
13.1 Amounts recoverable from reinsurers			
13.2 Funds held by or deposited with reinsured companies			
13.3 Other amounts receivable under reinsurance contracts			
14. Amounts receivable relating to uninsured plans		108,797	108,797
15.1 Current federal and foreign income tax recoverable and interest thereon			
15.2 Net deferred tax asset	10,178,904	10,557,785	378,881
16. Guaranty funds receivable or on deposit			
17. Electronic data processing equipment and software	19,397	369,258	349,861
18. Furniture and equipment, including health care delivery assets	1,437,185	2,204,631	767,446
19. Net adjustment in assets and liabilities due to foreign exchange rates			
20. Receivable from parent, subsidiaries and affiliates			
21. Health care and other amounts receivable			
22. Other assets nonadmitted	560,047	748,938	188,891
23. Aggregate write-ins for other than invested assets	227,199	644,860	417,661
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	14,439,226	17,064,778	2,625,552
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
26. Total (Lines 24 and 25)	14,439,226	17,064,778	2,625,552

DETAILS OF WRITE-INS			
0901.			
0902.			
0903.			
0998. Summary of remaining write-ins for Line 09 from overflow page			
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 09 above)			
2301. Other assets	227,199	454,695	227,496
2302. Amounts receivable under high deductible policies		190,165	190,165
2303.			
2398. Summary of remaining write-ins for Line 23 from overflow page			
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	227,199	644,860	417,661

NOTES TO FINANCIAL STATEMENTS

Note 1- Summary of Significant Accounting Policies

A. Accounting Practices

Effective January 1, 2001, and subject to any deviations prescribed or permitted by the California Insurance Commissioner, the accompanying financial statements of Golden Eagle Insurance Corporation (the "Company") have been prepared in conformity with the National Association of Insurance Commissioners ("NAIC") *Accounting Practices and Procedures Manual* ("APP Manual").

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. It also requires estimates in the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

C. Accounting Policies

Premiums are earned over the terms of the related policies and reinsurance contracts. Unearned premium reserves are established to cover the unexpired portion of premiums written. Such reserves are computed by pro-rata methods for direct business and are based on reports received from ceding companies for reinsurance assumed. Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to operations as incurred. Expenses incurred are reduced for ceding allowances received or receivable.

In addition, the Company uses the following accounting policies:

1. Investment grade short-term investments are carried at cost adjusted where appropriate for amortization of premium or discount, or market as specified by the Purposes and Procedures Manual of the NAIC Securities Valuation Office (SVO Manual).
2. Investment grade bonds are carried at cost adjusted where appropriate for amortization of premium or discount, or market as specified by the SVO Manual.
3. Common stocks are carried at market value, except that investments in stocks of subsidiaries and affiliates are carried on the equity basis.
4. The Company does not own preferred stocks.
5. The Company does not own mortgage loans.
6. Mortgage-backed/asset backed securities are stated at amortized value. Prepayment assumptions for single class mortgage-backed/asset backed securities and multi-class securities were obtained from internal estimates. These assumptions are consistent with the current interest rate and economic environment. The retrospective adjustment method is used to value all single class mortgage-backed/asset-backed securities and multi-class securities. Non-investment grade mortgage-backed/asset backed securities are stated at the lower of amortized value or fair value.
7. The Company carries its investments in subsidiaries, controlled, and affiliated (SCA) companies in accordance with SSAP No. 46, *Investment in Subsidiaries, Controlled Entities and Affiliates*, and the SVO Manual. Schedule D Part 6-Section 1 illustrates the valuation method used for each SCA company.
8. The Company has no investments in joint ventures, partnerships or limited liability companies.
9. The Company has no derivative instruments.
10. The Company anticipates investment income as a factor in the premium deficiency calculation, in accordance with SSAP No. 53, *Property-Casualty Contracts - Premiums*.
11. Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates, and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and follow current standards of practice. Any adjustments to the liability are reflected in the period that they are determined.
12. The Company did not change its capitalization policy in 2004.

Note 2- Accounting Changes and Correction of Errors

A. There were no material changes in accounting principles or corrections of errors during the year.

B. The Company prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the State of California. Effective January 1, 2001, the California Insurance Commissioner required that insurance companies domiciled in California prepare their statutory-basis financial statements in accordance with the NAIC APP Manual, effective January 1, 2001, subject to any deviations prescribed or permitted by the California Insurance Commissioner.

NOTES TO FINANCIAL STATEMENTS

Note 3- Business Combinations and Goodwill

A. Statutory Purchase Method

The Company did not enter into any statutory purchases during the year.

B. Statutory Mergers

The Company did not enter into any statutory mergers during the year.

C. Impairment Loss

Not applicable

Note 4- Discontinued Operations

The Company has no discontinued operations to report.

Note 5- Investments

A. Mortgage Loans, including Mezzanine Real Estate Loans

The Company does not hold any mortgage loans as investments.

B. Troubled Debt Restructuring for Creditors

Not applicable

C. Reverse Mortgages

The Company has no reverse mortgages.

D. Loan-Backed Securities

1. The Company has elected to use the book value as of January 1, 1994 as the cost for applying the retrospective adjustment method to securities purchased prior to that date, where historical cash flows are not readily available.
2. Prepayment assumptions for single class and multi-class mortgages-backed/asset-backed securities were based upon 1-month historical constant prepayment rates.
3. The Company used IDSI, Bloomberg, and Lehman Index data in determining the market value of the vast majority of its loan-backed securities. A small number of securities are priced in other ways, such as contacting brokers.
4. The Company had no negative yield situations requiring a change from the retrospective to prospective method.

E. Repurchase Agreements

The Company did not enter into any repurchase agreements during the year.

F. Real Estate

The Company does not own real estate.

Note 6- Joint Ventures, Partnerships & Limited Liability Companies

A. The Company has no investments in joint ventures, partnerships, or limited liability companies .

B. Impairments on joint ventures, partnerships and limited liability companies.

Note 7- Investment Income

A. Accrued Investment Income

All investment income due and accrued over 90 days past due is excluded from Surplus.

B. Amounts Nonadmitted

No amounts were excluded as of December 31, 2004.

Note 8- Derivative Instruments

The Company was not a party to any derivative financial instruments during the year.

Note 9 - Income Taxes

A. The components of the net deferred tax assets and liabilities recognized in the Company's Assets, Liabilities, Surplus and Other Funds are as follows:

NOTES TO FINANCIAL STATEMENTS

	December 31, 2004	December 31, 2003	Change
Total of gross deferred tax assets	31,722,861	34,102,477	(2,379,616)
Total of deferred tax liabilities	(4,021,861)	(4,036,567)	14,706
Net deferred tax asset	27,701,000	30,065,910	(2,364,910)
Net deferred tax asset non-admitted	(10,178,904)	(10,557,785)	378,881
Net admitted deferred tax asset	17,522,096	19,508,125	(1,986,029)

B. The Company does not have any deferred tax liabilities described in SSAP No. 10, Income Taxes, paragraph 6d.

C. The provisions for incurred taxes on earnings for the years ended December 31 are:

	2004	2003
Federal	13,242,914	(6,041,307)
Net operating loss benefit	(3,018,750)	(2,142,146)
Foreign	0	0
Federal and foreign income tax incurred	10,224,164	(8,183,453)

The Company's deferred tax assets and liabilities result primarily from discounting of unpaid loss and LAE reserves, limits on unearned premium reserve deductions, deferred compensation deductions, reversal of discount accretion on bonds, investment impairments, fixed asset depreciation differences, unrealized gains, minimum tax credit carryforward, and statutory non-admitted assets.

D. Effective tax rates differ from the current statutory rate of 35% principally due to the effects of revisions to prior year estimates and changes in deferred taxes related to statutory non-admitted assets.

E. The amount of Federal income taxes incurred and available for recoupment in the event of future losses are \$1,095,000 from the current year and \$1,131,982 from the preceding year.

The Company has no net loss carryforward available to offset future net income subject to Federal income taxes .

The Company has minimum tax credit of \$2,226,982 which does not expire.

F. The Company's Federal income tax return is consolidated with the following entities:

Access Insurance Services, Co.	Liberty International Holdings, Inc.
ALM Services, Inc.	Liberty Life Assurance Company of Boston
Ambco Capital Corporation	Liberty Life Holdings, Inc.
America First Insurance Company	Liberty Lloyds of Texas Insurance Company
America First Lloyds Insurance Company	Liberty Management Services, Inc.
American Ambassador Casualty Company	Liberty Mexico Holdings, Inc.
Berkeley Management Corporation	Liberty Mutual Capital Corporation (Boston)
Bridgefield Casualty Insurance Company	Liberty Mutual Fire Insurance Company
Bridgefield Employers Insurance Company	Liberty Mutual Group Inc.
Capitol Agency, Inc. (Arizona corporation)	Liberty Mutual Holding Company, Inc.
Capitol Agency, Inc. (Ohio corporation)	Liberty Mutual Insurance Company
Capitol Agency, Inc. (Tennessee corporation)	Liberty Mutual Managed Care, Inc.
Cascade Disability Management, Inc.	Liberty Northwest Insurance Corporation
Colorado Casualty Insurance Company	Liberty Personal Insurance Company
Companies Agency Insurance Services of California	Liberty RE (Bermuda) Limited
Companies Agency of Alabama, Inc.	Liberty Real Estate Corporation
Companies Agency of Georgia, Inc.	Liberty Surplus Insurance Corporation
Companies Agency of Kentucky, Inc.	Liberty-USA Corporation
Companies Agency of Massachusetts, Inc.	LIH-Re of America Corporation
Companies Agency of Michigan, Inc.	LIH U.S. P&C Corporation
Companies Agency of New York, Inc.	LIIA Insurance Agency, Inc.
Companies Agency of Pennsylvania, Inc.	LIU Specialty Agency, Inc.
Companies Agency of Phoenix, Inc.	LLS Insurance Agency of Nevada, Inc.
Companies Agency, Inc.	LM Insurance Corporation
Companies Annuity Agency of Texas, Inc.	LMHC Massachusetts Holding, Inc.
Consolidated Insurance Company	LRE Properties, Inc.
Copley Venture Capital, Inc.	Mid-American Agency, Inc.
Countrywide Services Corporation	Mid-American Fire and Casualty Company
Diversified Settlements, Inc.	Missouri Agency, Inc.
Employers Insurance Company of Wausau	North Pacific Insurance Company
Excelsior Insurance Company	Oregon Automobile Insurance Company
First State Agency, Inc.	Peerless Indemnity Insurance Company
Florida State Agency, Inc.	Peerless Insurance Company
Globe American Casualty Company	LM Personal Insurance Company
Golden Eagle Insurance Corporation	LM General Insurance Company
Gulf States AIF, Inc.	LM Property and Casualty Insurance Company
Hawkeye-Security Insurance Company	San Diego Insurance Company
Helmsman Insurance Agency of Illinois, Inc.	State Agency, Inc. (Indiana corporation)
Helmsman Insurance Agency of Texas, Inc.	State Agency, Inc. (Wisconsin corporation)
Heritage-Summit Healthcare of Florida, Inc.	St. James Insurance Company
Indiana Insurance Company	Summit Consulting, Inc.
LEXCO Limited	Summit Consulting, Inc. of Louisiana
Liberty Assignment Corporation	Summit Holding Southeast, Inc.
Liberty Corporate Services, Inc.	The First Liberty Insurance Corporation

NOTES TO FINANCIAL STATEMENTS

Liberty Energy Corporation Liberty Financial Services, Inc. Liberty Hospitality Group, Inc. Liberty Insurance Company of America Liberty Insurance Corporation Liberty Insurance Holdings, Inc. Liberty Insurance Underwriters, Inc. Liberty International Aberdeen, Inc. Liberty International Asia Pacific Holdings, Inc.	The Midwestern Indemnity Company The National Corporation The Netherlands Insurance Company Wausau (Bermuda) Ltd. Wausau Business Insurance Company Wausau General Insurance Company Wausau Holdings, Inc. Wausau Service Corporation Wausau Underwriters Insurance Company
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* This company joined the consolidated group in 2004 and its activity from the date it joined the group is included in the consolidated return.

The method of federal income tax allocation is subject to a written agreement. Allocation is based upon separate return calculations with credit applied for losses as appropriate. The Company has the enforceable right to recoup prior year payments in the event of future losses.

Note 10- Information concerning Parent, Subsidiaries and Affiliates

- A. All of the outstanding shares of capital stock of the Company are held by Liberty Mutual Insurance Company (the "Parent Company"), a Massachusetts company. Liberty Mutual Insurance Company is wholly owned by Liberty Mutual Group, Inc., a Massachusetts company.
- B. All non-insurance transactions which the Company had with its affiliates involved less than ½ of 1% of the total admitted assets of the reporting entity.
- C. There have been no material transactions with the company's affiliates during 2004.
- D. At December 31, 2004, the Company reported \$34,869,343 due from affiliates. In general, the terms of the intercompany arrangements require settlement at least quarterly.
- E. The Company has made no guarantee or initiated undertaking for the benefit of affiliates which result in a material contingent exposure of the Company's or affiliates' assets or liabilities.
- F. See Note 26 for information regarding intercompany pooling arrangement

There is a "Service Agreement" between the Company and the Parent Company, under which the Parent Company provides the Company with services of personnel employed by the Parent Company, office space, supplies, equipment, telephone and wire services, the use of computers and similar machines to the extent necessary or appropriate. The Company has an investment services agreement with the Parent Company.

- G. The Company is part of a holding company structure as illustrated in Schedule Y Part 1.
- H. The Company does not own shares of an upstream company, either directly or indirectly.
- I. The Company has no investments in subsidiary, controlled or affiliated companies greater than 10% of admitted assets.
- J. The Company did not recognize any impairment write down for its subsidiary, controlled, or affiliated companies during the statement period.

Note 11- Debt

- A. The Company has no capital notes.
- B. The Company has no outstanding borrowed money.

Note 12- Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans

The Company does not have any direct employees and therefore, does not have any direct obligations for a defined benefit plan, deferred compensation arrangements, compensated absences or other post retirement benefit plans. Services for the operation of the Company are provided under provisions of an intercompany cost-sharing arrangement as described in note 10(f).

Note 13- Capital and Surplus, Shareholders' Dividend restrictions and Quasi-Reorganizations

1. The Company has 26,000 shares authorized, issued, and outstanding as of December 31, 2004. All shares have a stated par value of \$100.
2. Preferred Stock
Not applicable
3. Dividend restrictions
There are no dividend restrictions.
4. The maximum amount of dividends which can be paid by California-domiciled insurance companies to shareholders without prior approval of the Insurance Commissioner is the greater of (a) 10% of surplus, or (b) net income. The maximum

NOTES TO FINANCIAL STATEMENTS

dividend payout which may be made without prior approval in 2005 is \$26,388,725.

5. The Company does not have restricted surplus.
6. The Company had no advances to surplus.
7. The Company did not hold stock for special purposes.
8. The Company does not have special surplus funds
9. The portion of unassigned funds (surplus) represented or reduced by each item below is as follows:

	Cumulative Increase (Decrease) in Surplus	Current Year Increase (Decrease) in Surplus
a. Unrealized gains/(losses)	\$2,176,808	\$5,303,600
b. Nonadmitted asset values	(14,439,226)	2,625,552
c. Provision for reinsurance	0	673,000
Total	\$(12,262,418)	\$8,602,152

10. Surplus Notes

Not applicable

11. Quasi re-organization (dollar impact)

Not applicable

12. Quasi re-organization (effective date)

Not applicable

Note 14- Contingencies

A. Contingent Commitments

The Company has no commitments or contingent commitments to affiliates or other entities and as indicated in Note 10E, the Company has made no guarantees on behalf of affiliates.

B. Assessments

The Company is subject to guaranty fund and other assessments by the states in which it writes business. Guaranty fund assessments are accrued at the time of insolvencies. Other assessments are accrued either at the time of assessments or in the case of premium based assessments, at the time the premiums are written, or, in the case of loss based assessments, at the time the losses are incurred.

The Company has accrued a liability for guaranty fund and other assessments of \$2,407,042 that is offset by future premium tax credits of \$730,611. This represents management's best estimate based on information received from the states in which the Company writes business and may change due to factors including the company's share of the ultimate cost of current insolvencies. Current assessments are expected to be paid out in the next five years, while premium tax offsets are expected to be realized in the next eleven years, beginning in 2005.

During 2004 there were no material insolvencies to report. The company continues to remit payments relating to prior year insolvencies.

On October 3, 2001, the Company received notification of the insolvency of the Reliance Insurance Group. It is expected the insolvency will result in a guaranty fund assessment against the company of \$1,069,926 that has been charged to operations in the prior year, and any remaining unpaid balance is included in the liability above.

C. Gain Contingencies

Not applicable

D. All other Contingencies

Lawsuits arise against the Company in the normal course of business. Contingent liabilities arising from litigation, income taxes, and other matters are not considered material in relation to the financial position of the Company.

Note 15- Leases

A. Aside from certain sale-leaseback transactions disclosed below, the Company is not involved in material lease arrangements.

The following is a schedule of the Company's minimum lease obligations under these agreements for the next five years:

2005	\$1,714,718
2006	\$1,450,181
2007	\$1,241,708
2008	\$1,059,496
2009	\$654,324
2010 & thereafter	\$1,868,758

NOTES TO FINANCIAL STATEMENTS

Total	\$7,989,185
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- B. Leasing as a significant part of lessor's business activities

Not applicable

Note 16- Information About Financial Instruments With Off-Balance Sheet Risk And Financial Instruments With Concentrations of Credit Risk

The Company is not exposed to financial instruments with off-balance sheet risk or with concentrations of credit risk.

Note 17- Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

- A. Transfers of Receivables reported as sales:

The company did not have transfers of receivables reported as sales.

- B. Transfers and servicing of financial assets:

The Company participates in Securities lending program to generate additional income, whereby certain fixed income securities are loaned for a short period of time from the Company's portfolio to qualifying third parties, via a lending agent. Borrowers of these securities provide collateral equal to or in excess of, 102% of the market value of the loaned securities. Acceptable collateral may be in the form of cash or U.S. Government securities. The market value of the loaned securities is monitored and additional collateral is obtained if the market value of the collateral falls below 100% of the market value of the loaned securities. Under the terms of the securities lending program, the lending agent indemnifies the Company against borrower defaults. The loaned securities remain a recorded asset of the Company, however, the Company records a liability for the amount of collateral held, representing its obligation to return the collateral related to the loaned securities. At December 31, 2004, the total market value of fixed maturities loaned was \$26,257,458, with corresponding collateral value at \$26,773,713.

- C. Wash Sales

The Company did not have any wash sales transactions during the year.

Note 18-Gain or Loss from Uninsured Plans and the Uninsured Portion of Partially Insured Plans

- A. Administrative Services Only (ASO) Plans

Not applicable

- B. Administrative Services Contract (ASC) Plans

Not applicable

- C. Medicare or Other Similarly Structured Cost Based Reimbursement Contracts

Not applicable

Note 19- Direct Premium Written/Produced by Managing General Agents/ Third Party Administrators

The Company has no direct premiums written through managing general agents or third party administrators.

Note 20 – September 11 Events

The Company did not have material exposure to losses arising from the World Trade Center disaster of September 11, 2001.

Note 21- Other Items

- A. The Company has no extraordinary items to report.

- B. Troubled Debt Restructuring for Debtors

Not applicable

- C. Other Disclosures

1) The following is in answer to General Interrogatories, Part 2, 6.1, 6.2 and 6.3.

- 1 The Company participates in a Liberty Mutual Group cover in the amount of \$400 million in excess of \$100 million. The Company also has a cover of \$75 million in excess of \$25 million and underlying casualty excess reinsurance to \$25 million.
- 2 The Company tracks aggregate property exposure for homeowners and commercial risks. The highest concentrations of risk are located in Connecticut and Rhode Island. The Company utilizes the services of a broker and RMS and AIR software models to estimate the probable maximum loss.
- 3 The Company maintains a property excess reinsurance agreement with a retention of \$3,000,000 which inures to the benefit of the property catastrophe treaty. The Company has a \$50 million retention on the property

NOTES TO FINANCIAL STATEMENTS

catastrophe treaty and limits of \$150 million. There is additional coverage for the Northeast and additional earthquake coverage for the New Madrid area to \$250 million. The Company also participates in a Liberty Mutual Group cover in the amount of \$750 million in excess of \$250 million.

The Company's Property Excess treaties exclude terrorism coverage. The Company purchased property terrorism reinsurance of \$20 million in excess of \$5 million per event. The Company's Casualty Excess agreements provide terrorism coverage equal to one times the layer or \$5,000,000 whichever is lower. Second Event Casualty terrorism reinsurance of \$10 million in excess of \$5 million per event was purchased. In addition the Company participates in a Cross Line Terrorism agreement for the Liberty Mutual Group which provides \$200 million in excess of \$150 million.

- 2) Assets in the amount of \$44,555,539 and \$37,622,808 as of December 31, 2004 and 2003, respectively, were on deposit with government authorities or trustees as required by law.
- D. The Company routinely assesses the collectibility of its premium receivable. Based upon Company experience, amounts in excess of non-admitted amounts are not believed to be material.
- E. Business Interruption Insurance Recoveries

There were no reported losses that exceeded the policy deductible.

Note 22- Events Subsequent

There were no events subsequent to December 31, 2004 which would require disclosure.

Note 23- Reinsurance

- A. Excluding amounts arising pursuant to the intercompany pooling agreement, as described in Note 26, there are no unsecured reinsurance recoverables with an individual reinsurer which exceed 3% of policyholders surplus.
- B. There are no reinsurance recoverables in dispute from an individual reinsurer which exceed 5% of the Company's surplus. In addition, the aggregate reinsurance recoverables in dispute do not exceed 10% of the Company's surplus.
- C. Reinsurance Assumed & Ceded
1. The following table sets forth the maximum return premium and commission equity due the reinsurer or the Company if all of the Company's assumed and ceded reinsurance were canceled as of December 31, 2004.

	<u>Assumed Reinsurance</u>		<u>Ceded Reinsurance</u>		<u>Net Reinsurance</u>	
	UEP	Commission Equity	UEP	Commission Equity	UEP	Commission Equity
Affiliates	\$179,668,239	\$28,240,847	\$23,662,087	\$3,719,285	\$156,006,152	\$24,521,562
All Other	\$0	\$0	\$0	\$0	\$0	\$0
Total	<u>\$179,668,239</u>	<u>\$28,240,847</u>	<u>\$23,662,087</u>	<u>\$3,719,285</u>	<u>\$156,006,152</u>	<u>\$24,521,562</u>

Direct unearned premium reserve of \$23,584,637

2. There are no sliding scale adjustments, or other profit sharing commissions for direct, assumed or ceded business. Following are the contingent commissions for direct, assumed and ceded business.

Direct	\$1,024,648
Assumed	\$12,868,205
Ceded	<u>\$1,024,648</u>
Net	<u>\$12,868,205</u>

- D. The Company did not write off any uncollectible balances in 2004.
- E. The Company has not recorded any commutations in the current year.
- F. The Company does not have any retroactive reinsurance agreements.
- G. There are no contracts recorded as deposit accounting.

Note 24 - Retrospectively Rated Contracts and Contracts Subject to Redetermination

The Company does not write loss responsive policies or policies subject to redetermination.

Note 25 - Changes in Incurred Losses and Loss Adjustment Expenses

The estimated cost of loss and loss adjustment expenses attributed to insured events of prior years increased by \$3,136,208 during 2004. This represents 1.1% of unpaid losses and loss adjustment expenses of \$282,686,101 as of December 31, 2004. Increases or decreases of this nature occur as the result of claim settlements during the calendar year, and as additional information is received regarding individual claims, causing changes from the original estimates of the cost of these claims. Recent loss development trends are also taken into account in evaluating the overall adequacy of unpaid losses and loss adjustment expenses.

NOTES TO FINANCIAL STATEMENTS

Note 26- Intercompany Pooling Arrangements

The Company is a member of the Liberty Insurance Holdings (LIH) Inter-Company Reinsurance Agreement consisting of the following affiliated companies:

		NAIC Co. #	Pooling %	Line of Business
Lead Company:	Peerless Insurance Company (PIC)	24198	41.59%	All Lines
Affiliated Pool Companies:	Peerless Indemnity Insurance Company (PIIC)	18333	27.36%	All Lines
	Golden Eagle Insurance Corporation (GEIC)	10836	13.25%	All Lines
	Indiana Insurance Company (IIC)	22659	12.25%	All Lines
	The Netherlands Insurance Company (NIC)	24171	3.27%	All Lines
	Montgomery Mutual Insurance Company (MMC)	14613	2.28%	All Lines
			<u>100.00%</u>	
100% Quota Share ("Fronted")	Excelsior Insurance Company (EIC)	11045	0.00%	All Lines
Affiliated Companies:	Consolidated Insurance Company (CIC)	22640	0.00%	All Lines
	America First Insurance Company (AFIC)	12696	0.00%	All Lines
	Merchants and Business Men's Mutual Insurance Company (M&B)	14486	0.00%	All Lines
	Liberty County Mutual Insurance Company (LCMIC)	19544	0.00%	All Lines
	Colorado Casualty Insurance Company (CCIC)	41785	0.00%	All Lines
	National Insurance Association (NIA)	27944	0.00%	All Lines
	The Midwestern Indemnity Company (MIC)	23515	0.00%	All Lines
	Mid-America Fire & Casualty Company (MAFCC)	23507	0.00%	All Lines
	Globe American Casualty Company (GACC)	11312	0.00%	All Lines
	American Ambassador Casualty Company (AACC)	10073	0.00%	All Lines
	Hawkeye-Security Insurance Company (HSIC)	36919	0.00%	All Lines
	America First Lloyds Insurance Company (AFLIC)	11526	0.00%	All Lines

Under the terms of the Reinsurance Agreement, the sequence of transactions is as follows:

- (a) Each Affiliated Pool Company cedes its remaining net underwriting activity to the lead company
- (b) With the exception of MIC, MAFCC, GACC, AACC, and HSIC, all fronted companies cede its net underwriting activity to the lead company. MIC, MAFCC, GACC, AACC, and HSIC cede its net underwriting activity to PIIC.
- (c) After recording the assumed affiliate transactions noted above, the lead company records 100% of its external assumed and ceded reinsurance activity.
- (d) The lead company's remaining underwriting activity, after processing all internal and external reinsurance, is retroceded to the pool members in accordance with each company's pool participation percentage, as noted above.
- (e) There were no members that are parties to reinsurance agreements with non-affiliated reinsurers covering business subject to the pooling agreement and have a contractual right of direct recovery from the non-affiliated reinsurer per the terms of such reinsurance agreements.
- (f) There were no discrepancies between entries regarding pooled business on the assumed and ceded reinsurance schedules of the lead company and corresponding entries on the assumed and ceded reinsurance schedules of other pooled participants.
- (g) The write-off of uncollectible reinsurance is pooled and the Provision for Reinsurance is recognized by the entity placing the outbound external reinsurance.

During 2004, the following changes were made to the pool:

Pursuant to the approval of the appropriate State Insurance Departments, effective January 1, 2004, Golden Eagle Insurance Corporation and Montgomery Mutual Insurance Company, cancelled its participation in the Liberty Mutual Inter-Company Reinsurance Agreement and concurrently became a member of the LIH Inter-Company Reinsurance Agreement.

The LIH Pool Participation percentages were revised as follows:

	<u>2004</u>	<u>2003</u>
Peerless Insurance Company	41.59	41.59
Peerless Indemnity Insurance Company	27.36	27.36
Golden Eagle Insurance Corporation	13.25	-
Indiana Insurance Company	12.25	27.78
Netherlands Insurance Company	3.27	3.27
Montgomery Mutual Insurance Company	2.28	-

Also effective January 1, 2004, GEIC entered into a Fronting Agreement with Liberty Mutual Insurance Company (LMIC), the lead company in the Liberty Mutual Inter-Company Reinsurance Agreement, whereby it would continue to cede 100% of its workers' compensation activity to LMIC.

NOTES TO FINANCIAL STATEMENTS

Additionally, pursuant to the approval of the appropriate state insurance departments, effective January 1, 2004, Merchants & Businessmen's Mutual Insurance Company and Colorado Casualty Insurance Company cancelled its Fronting Agreements with LMIC and concurrently entered into Fronting Agreements with Peerless Insurance Company (PIC), the lead company in the LIH Inter-Company Reinsurance Agreement. Under the terms of the Fronting Agreements, after processing its external reinsurance, each company would cede 100% of its direct underwriting activity to PIC.

The above transactions resulted in the companies transferring their in-force business, as of January 1, 2004 (except for GEIC's workers' compensation business), to the LIH Inter-Company Reinsurance Agreement and compensating the companies in the LIH Inter-Company Reinsurance Agreement by a like amount. There were no gains or losses to surplus as a result.

Note 27- Structured Settlements

- A. As a result of purchased annuities with the claimant as payee, The Company no longer carries reserves of \$3,128,229 after applying Inter-Company Reinsurance Agreement percentages. The Company is contingently liable should the issuers of the purchased annuities fail to perform under the terms of the annuities. The amount of unrecorded loss contingencies related to the purchased annuities was \$3,128,229 as of December 31, 2004.
- B. The Company does not have material structured settlements from life insurers for which the Company has not obtained a release of liability from the claimant.

Note 28 - Health Care Receivables

Not applicable

Note 29 - Participating Policies

Not applicable

Note 30 – Premium Deficiency Reserves

As of December 31, 2004, the Company had no liabilities related to premium deficiency reserves. The Company considers anticipated investment income when calculating its premium deficiency reserves.

Note 31- High Dollar Deductible Policies

The Company does not have high deductible policies.

Note 32- Discounting of Liabilities for Unpaid Losses and Unpaid Loss Adjustment Expenses

For Workers Compensation, the Company discounts its reserves for unpaid losses using a tabular discount on the long-term annuity portion of certain workers compensation claims. The tabular discount is based on Unit Statistical Plan tables as approved by the respective states at an annual discount rate of 3.5%. The December 31, 2004 liabilities of \$63,400,213 are carried at a discounted value of \$60,692,932 representing a discount of \$2,707,281.

For all other lines, the Company does not discount its reserves for unpaid losses and loss adjustment expenses.

Note 33 - Asbestos/Environmental Reserves

The Company has exposure to asbestos and environmental claims which emanate principally from general liability policies written prior to the mid- 1980's. In establishing the Company's asbestos and environmental reserves, the Company estimates case basis reserves for anticipated losses and bulk reserves for loss adjustment expenses and incurred but not reported losses. The Company maintained casualty excess of loss reinsurance during the relevant periods. The reserves are reported net of expected recoveries from reinsurers and include any reserves reported by ceding reinsurers on assumed reinsurance contracts.

Upon their de-affiliation from the Nationwide Group and re-affiliation with the Company, EICOW, Wausau Business Insurance Company ("WBIC"), Wausau General Insurance Company ("WGIC"), and Wausau Underwriters Insurance Company ("WUIC") entered into ceded reinsurance contracts whereby Nationwide Indemnity Company assumed full responsibility for obligations on certain policies with effective dates prior to January 1, 1986, including all asbestos and environmental exposures.

Factors Contributing to Uncertainty in Establishing Adequate Reserves

The process of establishing reserves for asbestos and environmental claims is subject to greater uncertainty than the establishment of reserves for liabilities relating to other types of insurance claims. A number of factors contribute to this greater uncertainty surrounding the establishment of asbestos and environmental reserves, including, without limitation: (i) the lack of available and reliable historical claims data as an indicator of future loss development, (ii) the long waiting periods between exposure and manifestation of any bodily injury or property damage, (iii) the difficulty in identifying the source of asbestos or environmental contamination, (iv) the difficulty in properly allocating liability for asbestos or environmental damage, (v) the uncertainty as to the number and identity of insureds with potential exposure, (vi) the cost to resolve claims, and (vii) the collectibility of reinsurance.

The uncertainties associated with establishing reserves for asbestos and environmental losses and loss adjustment expenses are compounded by the differing, and at times inconsistent, court rulings on environmental and asbestos coverage issues involving: (i) the differing interpretations of various insurance policy provisions and whether asbestos and environmental losses are or were ever intended to be covered, (ii) when the loss occurred and what policies provide coverage, (iii) whether there is an insured obligation to defend, (iv) whether a compensable loss or injury has occurred, (v) how policy limits are determined, (vi) how policy exclusions are applied and interpreted, (vii) the impact of entities seeking bankruptcy protection as a result of asbestos-related liabilities, (viii) whether clean-up costs are covered as insured property damage, and (ix)

NOTES TO FINANCIAL STATEMENTS

applicable coverage defenses or determinations, if any, including the determination as to whether or not an asbestos claim is a products/completed operation claim subject to an aggregate limit and the available coverage, if any, for that claim.

In recent years the Company, as well as the industry generally, has witnessed a significant increase in the number of asbestos claims being filed, due to a number of variables, including more intensive advertising by lawyers seeking asbestos claimants, and the increasing focus by plaintiffs on new and previously peripheral defendants, attempts to broaden the interpretation of compensable loss, and courts expanding the scope of the coverage.

Uncertainty Regarding Reserving Methodologies

As a result of the significant uncertainty inherent in determining a company's asbestos and environmental liabilities and establishing related reserves, the amount of reserves required to adequately fund the Company's asbestos and environmental claims cannot be accurately estimated using conventional reserving methodologies based upon historical data and trends. As a result, the use of conventional reserving methodologies frequently has to be supplemented by subjective considerations including managerial judgment.

Effect of Uncertainty in Reserving For Asbestos and Environmental Claims on Company's Financial Condition

The methods of determining estimates for reported and unreported losses and establishing resulting reserves and related reinsurance recoverables are periodically reviewed and updated, and adjustments resulting from this review are reflected in income currently.

As a direct result of the significant uncertainties associated with estimating its asbestos and environmental exposures and establishing appropriate levels of reserves, the ultimate liability of the Company for asbestos and environmental exposures may vary materially from the reserves currently recorded. The Company and other industry members have and will continue to litigate the broadening judicial interpretation of policy coverage and the liability issues. If the courts continue to expand the scope of the coverage provided, additional liabilities could emerge for amounts in excess of reserves held. This emergence, as well as the other uncertainties noted above, cannot now be reasonably estimated, but could have a material impact on the Company's future operating results, and financial condition.

The table below summarizes reserve and loss activity for the Company's asbestos and environmental loss and loss adjustment expenses for each of the five most recent calendar years. Gross reserves for both asbestos and environmental are representative of all Liberty Insurance Holdings pooled companies. Net reserves for asbestos and environmental are allocated based on the Company's Intercompany Reinsurance Agreement as discussed in Note 26.

<u>Asbestos</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Gross of Reinsurance Basis					
Beginning Reserves	\$16,244,749	\$13,296,273	\$13,211,412	\$16,545,756	\$18,188,505
Incurrd losses and LAE	(1,205,640)	1,532,145	5,750,000	3,439,443	3,232,526
Calendar year payments	1,742,836	1,617,006	2,415,656	1,796,694	3,033,728
Ending Reserves	<u>\$13,296,273</u>	<u>\$13,211,412</u>	<u>\$16,545,756</u>	<u>\$18,188,505</u>	<u>\$18,387,303</u>
Net of Reinsurance Basis					
Beginning Reserves	\$1,727,647	\$1,402,566	\$1,410,103	\$1,676,760	\$2,084,466
Incurrd losses and LAE	(115,331)	183,750	536,625	645,768	158,034
Calendar year payments	209,750	176,213	269,968	238,062	337,913
Ending Reserves	<u>\$1,402,566</u>	<u>\$1,410,103</u>	<u>\$1,676,760</u>	<u>\$2,084,466</u>	<u>\$1,904,587</u>
Ending Reserves for Bulk + IBNR included above (Loss & LAE)					\$14,015,462
Gross of Reinsurance Basis					
Net of Reinsurance Basis:					\$1,518,408
Ending Reserves for LAE included above (Case, Bulk & IBNR)					
Gross of Reinsurance Basis					\$3,849,699
Net of Reinsurance Basis:					\$445,100
Environmental:					
Gross of Reinsurance Basis					
Beginning Reserves	\$34,681,718	\$29,021,738	\$21,251,007	\$13,286,937	\$18,023,816
Incurrd losses and LAE	(3,282,667)	(3,352,796)	0	5,547,367	1,807,253
Calendar year payments	2,377,313	4,417,935	7,964,070	810,488	1,282,776
Ending Reserves	<u>\$29,021,738</u>	<u>\$21,251,007</u>	<u>\$13,286,937</u>	<u>\$18,023,816</u>	<u>\$18,548,293</u>
Net of Reinsurance Basis					
Beginning Reserves	\$3,350,327	\$2,709,327	\$2,440,581	\$1,385,436	\$2,313,916
Incurrd losses and LAE	(344,522)	310,079	-	1,035,870	25,653
Calendar year payments	296,478	578,825	1,055,145	107,390	401,097
Ending Reserves	<u>\$2,709,327</u>	<u>\$2,440,581</u>	<u>\$1,385,436</u>	<u>\$2,313,916</u>	<u>\$1,938,472</u>
Ending Reserves for Bulk + IBNR included above (Loss & LAE)					\$16,786,342
Gross of Reinsurance Basis					
Net of Reinsurance Basis:					\$1,895,749
Ending Reserves for LAE included above (Case, Bulk & IBNR)					
Gross of Reinsurance Basis					\$4,705,188
Net of Reinsurance Basis:					\$544,012

Note 34- Subscriber Savings Accounts

The Company is not a reciprocal insurance company.

NOTES TO FINANCIAL STATEMENTS

Note 35 - Multiple Peril Crop Insurance

Not Applicable

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	18,877,029	3.320	18,877,029	3.320
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	33,021,760	5.807	33,021,760	5.807
1.22 Issued by U.S. government sponsored agencies	10,921,660	1.921	10,921,660	1.921
1.3 Foreign government (including Canada, excluding mortgage-backed securities)				
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	1,991,610	0.350	1,991,610	0.350
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	5,998,509	1.055	5,998,509	1.055
1.43 Revenue and assessment obligations				
1.44 Industrial development and similar obligations				
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	4,532,169	0.797	4,532,169	0.797
1.512 Issued or guaranteed by FNMA and FHLMC	55,372,974	9.738	55,372,974	9.738
1.513 All other				
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	93,812,140	16.497	93,812,140	16.497
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage- backed securities issued or guaranteed by agencies shown in Line 1.521				
1.523 All other	11,034,005	1.940	11,034,005	1.940
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	197,778,743	34.780	197,778,743	34.780
2.2 Unaffiliated foreign securities	17,110,513	3.009	17,110,513	3.009
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds	36,745,678	6.462	36,745,678	6.462
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated				
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated				
3.4 Other equity securities:				
3.41 Affiliated	55,611,846	9.780	55,611,846	9.780
3.42 Unaffiliated				
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated				
3.52 Unaffiliated				
4. Mortgage loans:				
4.1 Construction and land development				
4.2 Agricultural				
4.3 Single family residential properties				
4.4 Multifamily residential properties				
4.5 Commercial loans				
4.6 Mezzanine real estate loans				
5. Real estate investments:				
5.1 Property occupied by company				
5.2 Property held for production of income (includes \$ 0 of property acquired in satisfaction of debt)				
5.3 Property held for sale (\$ 0 including property acquired in satisfaction of debt)				
6. Policy loans				
7. Receivables for securities	10,751	0.002	10,751	0.002
8. Cash, cash equivalents and short-term investments	23,852,851	4.195	23,852,851	4.195
9. Other invested assets	1,976,186	0.348	1,976,186	0.348
10. Total invested assets	568,648,424	100.000	568,648,424	100.000

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [X] No []
- 1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? Yes [X] No [] N/A []
- 1.3 State Regulating? California
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [] No [X]
- 2.2 If yes, date of change:
If not previously filed, furnish herewith a certified copy of the instrument as amended. _____
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/1999
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/1999
- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 11/19/2001
- 3.4 By what department or departments? California Department of Insurance
- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.11 sales of new business? Yes [] No [X]
- 4.12 renewals? Yes [] No [X]
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.21 sales of new business? Yes [] No [X]
- 4.22 renewals? Yes [] No [X]
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [] No [X]
- 5.2 If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? (You need not report an action either formal or informal, if a confidentiality clause is part of the agreement.) Yes [] No [X]
- 6.2 If yes, give full information _____
- 7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? Yes [] No [X]
- 7.2 If yes,
- 7.21 State the percentage of foreign control 0 %
- 7.22 State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(s) (e.g., individual, corporation, government, manager or attorney-in-fact).

1 Nationality	2 Type of Entity

GENERAL INTERROGATORIES

- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes [] No [X]
 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes [] No [X]
 8.4 If response to 8.3 is yes, please provide the names and location (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?
 Ernst & Young, L.L.P.
 725 South Figueroa Street, Los Angeles, CA 90017
10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with a(n) actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification? William M. Finn, FCAS, MAAA
 Vice President & Senior Actuary
 62 Maple Avenue Keene, NH 03431 Liberty Regional Agency Markets
11. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:
 11.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?
- 11.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes [] No [X]
 11.3 Have there been any changes made to any of the trust indentures during the year? Yes [] No [X]
 11.4 If answer to (11.3) is yes, has the domiciliary or entry state approved the changes? Yes [] No [] N/A [X]

BOARD OF DIRECTORS

12. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate committee thereof? Yes [X] No []
 13. Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof? Yes [X] No []
 14. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees which is in or is likely to conflict with the official duties of such person? Yes [X] No []

FINANCIAL

- 15.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
 15.11 To directors or other officers \$ _____
 15.12 To stockholders not officers \$ _____
 15.13 Trustees, supreme or grand (Fraternal only) \$ _____
- 15.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):
 15.21 To directors or other officers \$ _____
 15.22 To stockholders not officers \$ _____
 15.23 Trustees, supreme or grand (Fraternal only) \$ _____
- 16.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement? Yes [] No [X]
 16.2 If yes, state the amount thereof at December 31 of the current year:
 16.21 Rented from others \$ _____
 16.22 Borrowed from others \$ _____
 16.23 Leased from others \$ _____
 16.24 Other \$ _____
- Disclose in Notes to Financial the nature of each obligation.
- 17.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments? Yes [] No [X]
 17.2 If answer is yes:
 17.21 Amount paid as losses or risk adjustment \$ _____
 17.22 Amount paid as expenses \$ _____
 17.23 Other amounts paid \$ _____

GENERAL INTERROGATORIES

INVESTMENT

18. List the following capital stock information for the reporting entity:

Class	1 Number of Shares Authorized	2 Number of Shares Outstanding	3 Par Value Per Share	4 Redemption Price If Callable	5 Is Dividend Rate Limited?	6 Are Dividends Cumulative?
Preferred					Yes [] No [X]	Yes [] No [X]
Common	100,000	100,000	100.00	X X X	X X X X X X	X X X X X X

19.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date, except as shown by Schedule E - Part 3 - Special Deposits? Yes [X] No []

19.2 If no, give full and complete information, relating thereto

20.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, except as shown on Schedule E - Part 3 - Special Deposits, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 16.1). Yes [] No [X]

20.2 If yes, state the amount thereof at December 31 of the current year:

20.21 Loaned to others	\$ _____
20.22 Subject to repurchase agreements	\$ _____
20.23 Subject to reverse repurchase agreements	\$ _____
20.24 Subject to dollar repurchase agreements	\$ _____
20.25 Subject to reverse dollar repurchase agreements	\$ _____
20.26 Pledged as collateral	\$ _____
20.27 Placed under option agreements	\$ _____
20.28 Letter stock or securities restricted as to sale	\$ _____
20.29 Other	\$ _____

20.3 For category (20.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount

21.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes [] No [X]

21.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes [] No [] N/A [X]
 If no, attach a description with this statement.

22.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes [] No [X]

22.2 If yes, state the amount thereof at December 31 of the current year. \$ _____

GENERAL INTERROGATORIES

INVESTMENT

23. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1-General, Section IV.H-Custodial or Safekeeping agreements of the NAIC Financial Condition Examiners Handbook? Yes [X] No []

23.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian's Address
JP Morgan Chase	3 Chase Metro Tech Center, Brooklyn, NY 11245

23.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

23.03 Have there been any changes, including name changes, in the custodian(s) identified in 23.01 during the current year? Yes [] No [X]

23.04 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

23.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of brokers/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	3 Address

24.1 Does the reporting entity have any diversified mutual funds reported in Schedule D, Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)])? Yes [] No [X]

24.2 If yes, complete the following schedule:

1 CUSIP#	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
9999999	Total	

24.3 For each mutual fund listed in the table above, complete the following schedule:

1 Name of Mutual Fund (from above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	4 Date of Valuation

GENERAL INTERROGATORIES

INVESTMENT

25. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
25.1 Bonds	474,516,891	487,374,742	12,857,851
25.2 Preferred stocks			
25.3 Totals	474,516,891	487,374,742	12,857,851

25.4 Describe the sources or methods utilized in determining the fair values:

.....

26.1 Have all the filing requirements of the Purposes and Procedures manual of the NAIC Securities Valuation Office been followed? Yes [X] No []

26.2 If no, list exceptions:

.....

OTHER

27.1 Amount of payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus, if any? \$ 664,069

27.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus during the period covered by this statement.

1 Name	2 Amount Paid
Insurance Services Office Inc.	\$ 347,258
	\$
	\$
	\$
	\$

28.1 Amount of payments for legal expenses, if any? \$ 700,419

28.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
Brown Law Group LLC.	\$ 586,945
	\$
	\$
	\$
	\$

29.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or department of government, if any? \$ _____

29.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or department of government during the period covered by this statement.

1 Name	2 Amount Paid
	\$
	\$
	\$
	\$
	\$

GENERAL INTERROGATORIES

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? YES [] NO [X]
 1.2 If yes, indicate premium earned on U. S. business only. \$ _____
 1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? \$ _____
 1.31 Reason for excluding _____

1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above. \$ _____
 1.5 Indicate total incurred claims on all Medicare Supplement insurance. \$ _____

1.6 Individual policies:
 Most current three years:
 1.61 Total premium earned \$ _____
 1.62 Total incurred claims \$ _____
 1.63 Number of covered lives \$ _____
 All years prior to most current three years:
 1.64 Total premium earned \$ _____
 1.65 Total incurred claims \$ _____
 1.66 Number of covered lives \$ _____

1.7 Group policies:
 Most current three years:
 1.71 Total premium earned \$ _____
 1.72 Total incurred claims \$ _____
 1.73 Number of covered lives \$ _____
 All years prior to most current three years:
 1.74 Total premium earned \$ _____
 1.75 Total incurred claims \$ _____
 1.76 Number of covered lives \$ _____

2. Health Test:

	1	2
	Current Year	Prior Year
2.1 Premium Numerator	\$ _____	\$ 798,109
2.2 Premium Denominator	\$ _____	\$ 218,971,468
2.3 Premium Ratio (2.1/2.2)	_____	_____
2.4 Reserve Numerator	\$ _____	\$ 159,302
2.5 Reserve Denominator	\$ _____	\$ 394,874,592
2.6 Reserve Ratio (2.4/2.5)	_____	_____

3.1 Does the reporting entity issue both participating and non-participating policies? YES [] NO [X]
 3.2 If yes, state the amount of calendar year premiums written on:
 3.21 Participating policies \$ _____
 3.22 Non-participating policies \$ _____

4. For Mutual Reporting Entities and Reciprocal Exchange only:
 4.1 Does the reporting entity issue assessable policies? YES [] NO [X]
 4.2 Does the reporting entity issue non-assessable policies? YES [] NO [X]
 4.3 If assessable policies are issued, what is the extent of the contingent liability of the policyholders? _____ %
 4.4 Total amount of assessments paid or ordered to be paid during the year on deposit notes or contingent premiums. \$ _____

5. For Reciprocal Exchanges Only:
 5.1 Does the exchange appoint local agents? YES [] NO [X]
 5.2 If yes, is the commission paid:
 5.21 Out of Attorney's-in-fact compensation YES [] NO [] N/A [X]
 5.22 As a direct expense of the exchange YES [] NO [] N/A [X]

5.3 What expenses of the Exchange are not paid out of the compensation of the Attorney-in-fact? _____

 5.4 Has any Attorney-in-fact compensation, contingent on fulfillment of certain conditions, been deferred? YES [] NO [X]
 5.5 If yes, give full information _____

GENERAL INTERROGATORIES
(Continued)

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

- 6.1 What provision has this reporting entity made to protect itself from an excessive loss in the event of a catastrophe under a workers' compensation contract issued without limit of loss: See Note 21 C (1)
- 6.2 Describe the method used to estimate this reporting entity's probable maximum insurance loss, and identify the type of insured exposures comprising that probable maximum loss, the locations of concentrations of those exposures and the external resources (such as consulting firms or computer software models), if any, used in the estimation process: See Note 21 C (1)
- 6.3 What provision has this reporting entity made (such as a catastrophic reinsurance program) to protect itself from an excessive loss arising from the types and concentrations of insured exposures comprising its probable maximum property insurance loss? See Note 21 C (1)
- 6.4 Does the reporting entity carry catastrophe reinsurance protection for at least one reinstatement, in an amount sufficient to cover its estimated probable maximum loss attributable to a single loss event or occurrence? YES NO
- 6.5 If no, describe any arrangements or mechanisms employed by the reporting entity to supplement its catastrophe reinsurance program or to hedge its exposure to uninsured catastrophic loss
- 7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract which includes a provision which would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? YES NO
- 7.2 If yes, indicate the number of reinsurance contracts containing such provisions.
- 8.1 Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on this risk, or portion thereof, reinsured? YES NO
- 8.2 If yes, give full information
9. If the reporting entity has assumed risks from another entity, there should be charged on account of such reinsurances a reserve equal to that which the original entity would have been required to charge had it retained the risks. Has this been done? YES NO N/A
- 10.1 Has the reporting entity guaranteed policies issued by any other entity and now in force: YES NO
- 10.2 If yes, give full information
- 11.1 If the reporting entity recorded accrued retrospective premiums on insurance contracts on Line 12.3 of the asset schedule, Page 2, state the amount of corresponding liabilities recorded for:
- | | | | |
|-------|---|----|-------|
| 11.11 | Unpaid losses | \$ | _____ |
| 11.12 | Unpaid underwriting expenses (including loss adjustment expenses) | \$ | _____ |
- 11.2 Of the amount on Line 12.3 of the asset schedule, Page 2, state the amount which is secured by letters of credit, collateral and other funds? \$ _____
- 11.3 If the reporting entity underwrites commercial insurance risks, such as workers' compensation, are premium or promissory notes accepted from its insureds covering unpaid premiums and/or unpaid losses? YES NO N/A
- 11.4 If yes, provide the range of interest rates charged under such notes during the period covered by this statement:
- | | | | |
|-------|------|-------|---|
| 11.41 | From | _____ | % |
| 11.42 | To | _____ | % |
- 11.5 Are letters of credit or collateral and other funds received from insureds being utilized by the reporting entity to secure premium or promissory notes taken by a reporting entity, or to secure any of the reporting entity's reported direct unpaid loss reserves, including unpaid losses under loss deductible features of commercial policies? YES NO
- 11.6 If yes, state the amount thereof at December 31 of current year:
- | | | | |
|-------|----------------------------|----|-------|
| 11.61 | Letters of Credit | \$ | _____ |
| 11.62 | Collateral and other funds | \$ | _____ |
- 12.1 What amount of installment notes is owned and now held by the reporting entity? \$ _____
- 12.2 Have any of these notes been hypothecated, sold or used in any manner as security for money loaned within the past year? YES NO
- 12.3 If yes, what amount? \$ _____
- 13.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): \$ 516,750
- 13.2 Does any reinsurance contract considered in the calculation of this amount include an aggregate limit of recovery without also including a reinstatement provision? YES NO
- 13.3 State the number of reinsurance contracts (excluding individual facultative risk certificates, but including facultative programs, automatic facilities or facultative obligatory contracts) considered in the calculation of the amount. _____ 3

GENERAL INTERROGATORIES
(Continued)

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

14.1 Is the company a cedant in a multiple cedant reinsurance contract? YES [] NO [X]

14.2 If yes, please describe the method of allocating and recording reinsurance among the cedants:
.....
.....

14.3 If the answer to 14.1 is yes, are the methods described in item 14.2 entirely contained in the respective multiple cedant reinsurance contracts? YES [] NO [X]

14.4 If the answer to 14.3 is no, are all the methods described in 14.2 entirely contained in written agreements? YES [] NO [X]

14.5 If the answer to 14.4 is no, please explain:
.....
.....

15.1 Has the reporting entity guaranteed any financed premium accounts? YES [] NO [X]

15.2 If yes, give full information
.....

16.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? YES [] NO [X]

16.11 Name of real estate holding company _____
16.12 Number of parcels involved _____
16.13 Total book/adjusted carrying value \$ _____

16.2 If yes, provide explanation
.....
.....

17.1 Does the reporting entity write any warranty business? YES [] NO [X]
If yes, disclose the following information for each of the following types of warranty coverage:

	1	2	3	4	5
	Direct Losses	Direct Losses	Direct Written	Direct Premium	Direct Premium
	Incurred	Unpaid	Premium	Unearned	Earned
17.11 Home	\$	\$	\$	\$	\$
17.12 Products	\$	\$	\$	\$	\$
17.13 Automobile	\$	\$	\$	\$	\$
17.14 Other*	\$	\$	\$	\$	\$

* Disclose type of coverage: _____

FIVE-YEAR HISTORICAL DATA

Show amounts in whole dollars only, no cents; show percentages to one decimal place, i.e., 17.6.

	1 2004	2 2003	3 2002	4 2001	5 2000
Gross Premiums Written (Page 8, Part 1B, Cols. 1, 2 & 3)					
1. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	203,325,206	162,570,028	156,391,782	200,447,279	313,875,260
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	70,945,986	42,474,956	44,896,831	53,561,369	61,358,899
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	226,471,074	55,482,402	54,607,099	126,268,556	176,045,065
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	(2,047,788)	4,420,563	13,483,884	13,994,223	15,924,606
5. Nonproportional reinsurance lines (Lines 30, 31 & 32)	(373,956)	5,535,484	3,638,837	1,134,852	2,043,758
6. Total (Line 34)	498,320,522	270,483,433	273,018,433	395,406,279	569,247,588
Net Premiums Written (Page 8, Part 1B, Col. 6)					
7. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	183,383,292	143,974,497	125,616,262	109,332,185	109,048,756
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	69,285,352	40,768,488	38,249,177	35,257,586	31,968,709
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	200,072,142	36,035,758	29,472,823	25,568,555	25,413,041
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	(2,047,788)	4,420,668	13,451,257	13,667,188	15,201,550
11. Nonproportional reinsurance lines (Lines 30, 31 & 32)	(373,956)	5,535,484	3,638,837	1,134,852	2,043,758
12. Total (Line 34)	450,319,042	230,734,895	210,428,356	184,960,366	183,675,814
Statement of Income (Page 4)					
13. Net underwriting gain (loss) (Line 8)	143,439	(21,858,941)	(17,331,532)	(58,757,268)	(30,823,802)
14. Net investment gain (loss) (Line 11)	34,391,670	36,722,471	36,298,500	35,466,895	36,382,202
15. Total other income (Line 15)	205,390	(5,641,860)	(3,144,047)	16,935,293	7,901,541
16. Dividends to policyholders (Line 17)	479,018	(60,034)	1,621,892	1,931,507	2,344,838
17. Federal and foreign income taxes incurred (Line 19)	10,224,164	(8,183,453)	2,752,737	(3,330,365)	2,126,320
18. Net income (Line 20)	24,037,317	17,465,157	11,448,292	(4,956,222)	8,988,783
Balance Sheet Lines (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	752,251,616	770,675,974	724,746,334	675,575,636	683,130,887
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 12.1)	17,162,216	22,135,043	21,896,147	19,543,009	19,209,916
20.2 Deferred and not yet due (Line 12.2)	98,836,764	38,504,971	32,385,625	26,078,427	25,386,756
20.3 Accrued retrospective premiums (Line 12.3)		19,914,856	17,486,765	18,026,272	15,580,227
21. Total liabilities excluding protected cell business (Page 3, Line 24)	488,364,368	535,691,248	517,851,345	485,447,236	496,774,325
22. Losses (Page 3, Lines 1 and 2)	228,017,584	329,682,944	311,267,232	322,720,732	308,725,913
23. Loss adjustment expenses (Page 3, Line 3)	54,666,850	65,191,648	59,323,112	62,647,650	64,530,263
24. Unearned premiums (Page 3, Line 9)	179,590,789	95,881,514	80,641,808	68,905,144	63,973,436
25. Capital paid up (Page 3, Lines 28 & 29)	2,600,000	2,600,000	2,600,000	2,600,000	2,600,000
26. Surplus as regards policyholders (Page 3, Line 35)	263,887,248	234,984,726	206,894,989	190,128,400	186,356,562
Risk-Based Capital Analysis					
27. Total adjusted capital	263,887,248	234,984,726	206,894,989	190,128,400	186,356,562
28. Authorized control level risk-based capital	27,380,153	32,392,384	30,200,961	11,096,533	25,573,098
Percentage Distribution of Cash and Invested Assets (Page 2, Col. 3) (Item divided by Page 2, Line 10, Col. 3) x 100.0					
29. Bonds (Line 1)	79.2	79.2	81.0	82.0	82.8
30. Stocks (Lines 2.1 & 2.2)	16.2	13.3	12.1	7.4	5.8
31. Mortgage loans on real estate (Lines 3.1 and 3.2)					
32. Real estate (Lines 4.1, 4.2 & 4.3)					
33. Cash and short-term investments (Line 5)	4.2	7.0	6.6	10.4	10.1
34. Contract loans (Line 6)			XXX	XXX	XXX
35. Other invested assets (Line 7)	0.3	0.5	0.2	0.3	1.3
36. Receivable for securities (Line 8)					
37. Aggregate write-ins for invested assets (Line 9)					
38. Cash and invested assets (Line 10)	100.0	100.0	100.0	100.0	100.0
Investments in Parent, Subsidiaries and Affiliates					
39. Affiliated bonds, (Sch. D, Summary, Line 25, Col. 1)					5,000,000
40. Affiliated preferred stocks (Sch. D, Summary, Line 39, Col. 1)					
41. Affiliated common stocks (Sch. D, Summary, Line 53, Col. 2)	55,611,846	50,857,597	44,276,610	40,823,141	34,250,213
42. Affiliated short-term investments (subtotals included in Schedule DA, Part 2, Col. 5, Line 11)					
43. Affiliated mortgage loans on real estate					
44. All other affiliated					
45. Total of above Lines 39 to 44	55,611,846	50,857,597	44,276,610	40,823,141	39,250,213
46. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 45 above divided by Page 3, Col. 1, Line 35 x 100.0)	21.1	21.6	21.4	21.5	21.1

FIVE-YEAR HISTORICAL DATA

(Continued)

	1 2004	2 2003	3 2002	4 2001	5 2000
Capital and Surplus Accounts (Page 4)					
47. Net unrealized capital gains (losses) (Line 23)	5,303,600	9,899,113	2,465,249	7,139,066	(6,562,206)
48. Dividends to stockholders (Line 34)					
49. Change in surplus as regards policyholders for the year (Line 37)	28,902,522	28,089,737	16,766,588	3,771,840	(112,125)
Gross Losses Paid (Page 9, Part 2, Cols. 1 & 2)					
50. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	300,278,536	187,471,534	234,892,540	260,753,066	276,583,205
51. Property lines (Lines 1, 2, 9, 12, 21 & 26)	25,728,664	22,477,522	25,782,182	32,723,783	31,018,865
52. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	35,627,401	43,979,268	76,722,946	107,996,863	91,673,077
53. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	14,071,861	7,386,681	10,848,746	9,379,939	9,978,683
54. Nonproportional reinsurance lines (Lines 30, 31 & 32)	4,651,884	2,545,043	2,640,415	1,800,978	2,146,903
55. Total (Line 34)	380,358,346	263,860,048	350,886,829	412,654,629	411,400,733
Net Losses Paid (Page 9, Part 2, Col. 4)					
56. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	233,243,542	85,089,048	98,159,518	96,591,989	99,180,349
57. Property lines (Lines 1, 2, 9, 12, 21 & 26)	24,322,338	19,057,459	19,106,724	21,906,750	20,559,840
58. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	12,446,049	14,855,654	16,698,396	19,587,921	16,068,947
59. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	14,071,861	7,386,681	10,849,277	9,332,204	9,479,397
60. Nonproportional reinsurance lines (Lines 30, 31 & 32)	4,651,884	2,545,043	2,640,415	1,800,978	2,146,903
61. Total (Line 34)	288,735,674	128,933,885	147,454,330	149,219,842	147,435,436
Operating Percentages (Page 4) (Item divided by Page 4, Line 1) x 100.0					
62. Premiums earned (Line 1)	100.0	100.0	100.0	100.0	100.0
63. Losses incurred (Line 2)	53.6	66.4	68.6	89.1	76.6
64. Loss expenses incurred (Line 3)	12.9	19.1	16.4	17.0	16.1
65. Other underwriting expenses incurred (Line 4)	33.8	24.4	100.2	25.9	24.6
66. Net underwriting gain (loss) (Line 8)		(10.0)	(8.8)	(32.0)	(17.3)
Other Percentages					
67. Other underwriting expenses to net premiums written (Page 4, Lines 4 + 5 - 15 divided by Page 8, Part 1B, Col. 6, Line 34 x 100.0)	25.9	25.6	23.8	16.6	19.6
68. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	66.5	85.5	85.1	106.1	92.7
69. Net premiums written to policyholders' surplus (Page 8, Part 1B, Col. 6, Line 34 divided by Page 3, Line 35, Col. 1 x 100.0)	170.6	98.2	101.7	97.3	98.6
One Year Loss Development (000 omitted)					
70. Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2 - Summary, Line 12, Col. 11)	3,136	18,346	15,286	30,222	8,339
71. Percent of development of losses and loss expenses incurred to policyholders' surplus of prior year end (Line 70 above divided by Page 4, Line 21, Col. 1 x 100.0)	1.3	8.9	8.0	16.2	4.5
Two Year Loss Development (000 omitted)					
72. Development in estimated losses and loss expenses incurred 2 years before the current year and prior year (Schedule P, Part 2 - Summary, Line 12, Col. 12)	14,917	38,515	57,869	39,690	(176)
73. Percent of development of losses and loss expenses incurred to reported policyholders' surplus of second prior year end (Line 72 above divided by Page 4, Line 21, Col. 2 x 100.0)	7.2	20.3	31.0	21.3	(0.9)

SCHEDULE D - SUMMARY BY COUNTRY

Long-Term Bonds and Stocks OWNED December 31 of Current Year

Description		1 Book/Adjusted Carrying Value	2 Fair Value	3 Actual Cost	4 Par Value of Bonds
BONDS					
Governments (Including all obligations guaranteed by governments)	1. United States	60,487,483	62,879,352	60,450,632	60,446,969
	2. Canada				
	3. Other Countries				
	4. Totals	60,487,483	62,879,352	60,450,632	60,446,969
States, Territories and Possessions (Direct and guaranteed)	5. United States	1,991,610	2,042,020	1,991,280	2,000,000
	6. Canada				
	7. Other Countries				
	8. Totals	1,991,610	2,042,020	1,991,280	2,000,000
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States	5,998,509	5,923,510	5,998,310	6,000,000
	10. Canada				
	11. Other Countries				
	12. Totals	5,998,509	5,923,510	5,998,310	6,000,000
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13. United States	160,106,774	161,451,189	160,369,419	160,084,543
	14. Canada				
	15. Other Countries				
	16. Totals	160,106,774	161,451,189	160,369,419	160,084,543
Public Utilities (unaffiliated)	17. United States	7,999,260	7,980,870	8,000,270	8,000,000
	18. Canada				
	19. Other Countries				
	20. Totals	7,999,260	7,980,870	8,000,270	8,000,000
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States	196,756,963	207,732,886	196,605,524	196,924,692
	22. Canada	5,879,069	6,119,355	5,927,856	5,885,000
	23. Other Countries	11,231,444	11,372,450	11,138,080	11,500,000
	24. Totals	213,867,476	225,224,691	213,671,460	214,309,692
Parent, Subsidiaries and Affiliates	25. Totals				
	26. Total Bonds	450,451,112	465,501,632	450,481,371	450,841,204
PREFERRED STOCKS					
Public Utilities (unaffiliated)	27. United States				
	28. Canada				
	29. Other Countries				
	30. Totals				
Banks, Trust and Insurance Companies (unaffiliated)	31. United States				
	32. Canada				
	33. Other Countries				
	34. Totals				
Industrial and Miscellaneous (unaffiliated)	35. United States				
	36. Canada				
	37. Other Countries				
	38. Totals				
Parent, Subsidiaries and Affiliates	39. Totals				
	40. Total Preferred Stocks				
COMMON STOCKS					
Public Utilities (unaffiliated)	41. United States				
	42. Canada				
	43. Other Countries				
	44. Totals				
Banks, Trust and Insurance Companies (unaffiliated)	45. United States				
	46. Canada				
	47. Other Countries				
	48. Totals				
Industrial and Miscellaneous (unaffiliated)	49. United States	36,745,678	36,745,678	34,780,716	
	50. Canada				
	51. Other Countries				
	52. Totals	36,745,678	36,745,678	34,780,716	
Parent, Subsidiaries and Affiliates	53. Totals	55,611,846	55,611,846	55,400,000	
	54. Total Common Stocks	92,357,524	92,357,524	90,180,716	
	55. Total Stocks	92,357,524	92,357,524	90,180,716	
	56. Total Bonds and Stocks	542,808,636	557,859,156	540,662,087	

SCHEDULE D - VERIFICATION BETWEEN YEARS

1. Book/adjusted carrying value of bonds and stocks, prior year	586,144,964	6. Foreign Exchange Adjustment:	
2. Cost of bonds and stocks acquired, Column 7, Part 3	265,844,842	6.1 Column 15, Part 1	
3. Increase (decrease) by adjustment:		6.2 Column 19, Part 2, Section 1	
3.1 Columns 12 + 13 - 14, Part 1	47,525	6.3 Column 16, Part 2, Section 2	
3.2 Column 18, Part 2, Section 1		6.4 Column 15, Part 4	
3.3 Column 15, Part 2, Section 2	5,303,601	7. Book/adjusted carrying value at end of current period	542,808,636
3.4 Column 14, Part 4	(291,173)	8. Total valuation allowance	
4. Total gain (loss), Column 19, Part 4	3,832,232	9. Subtotal (Lines 7 plus 8)	542,808,636
5. Deduct consideration for bonds and stocks disposed of Column 7, Part 4	318,073,355	10. Total nonadmitted amounts	
		11. Statement value of bonds and stocks, current period	542,808,636

SCHEDULE P-ANALYSIS OF LOSSES AND LOSS EXPENSES

SCHEDULE P-PART 1-SUMMARY

(\$000 omitted)

Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned			Loss and Loss Expense Payments							12 Number of Claims Reported - Direct and Assumed	
	1 Direct and Assumed	2 Ceded	3 Net (Cols. 1 - 2)	Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10 Salvage and Subrogation Received		11 Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)
				4 Direct and Assumed	5 Ceded	6 Direct and Assumed	7 Ceded	8 Direct and Assumed	9 Ceded			
1. Prior	X X X	X X X	X X X	1,090	389	363	45	71	8	42	1,082	X X X
2. 1995	190,762	18,507	172,255	107,570	6,330	8,695	504	10,583	123	4,465	119,891	X X X
3. 1996	201,142	24,083	177,059	130,994	14,026	10,998	871	12,670	782	5,228	138,983	X X X
4. 1997	229,052	38,743	190,309	143,092	25,688	11,852	1,799	16,638	2,696	6,100	141,399	X X X
5. 1998	266,050	51,862	214,188	170,017	45,321	12,959	2,733	21,805	5,567	6,317	151,160	X X X
6. 1999	246,492	38,555	207,937	164,903	31,340	11,659	1,838	20,849	4,120	6,048	160,113	X X X
7. 2000	235,048	30,312	204,736	155,624	25,098	10,668	972	18,398	2,387	5,472	156,233	X X X
8. 2001	251,725	34,593	217,132	142,200	20,236	9,733	580	17,352	1,881	4,790	146,588	X X X
9. 2002	331,763	78,018	253,745	155,592	37,009	7,928	1,604	14,232	3,212	4,664	135,927	X X X
10. 2003	374,886	62,748	312,138	128,033	19,227	5,529	839	22,501	5,678	4,249	130,319	X X X
11. 2004	379,965	31,816	348,149	74,711	3,645	1,538	20	15,084	804	2,645	86,864	X X X
12. Totals	X X X	X X X	X X X	1,373,826	228,309	91,922	11,805	170,183	27,258	50,020	1,368,559	X X X

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23 Salvage and Subrogation Anticipated	24 Total Net Losses and Expenses Unpaid	25 Number of Claims Outstanding Direct and Assumed
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR		21 Direct and Assumed	22 Ceded			
	13 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded					
1. Prior	7,523	940	4,486	298			516	77	591	163	37	11,638	X X X
2. 1995	641	29	245	110			107	16	47	10	60	875	X X X
3. 1996	1,345	216	313	133			213	30	85	17	79	1,560	X X X
4. 1997	1,838	483	779	347			404	86	140	31	109	2,214	X X X
5. 1998	6,524	4,387	2,247	1,032			997	218	446	111	195	4,466	X X X
6. 1999	5,073	3,368	3,002	1,318			1,364	263	463	103	295	4,850	X X X
7. 2000	6,285	2,614	3,984	1,648			2,147	332	607	126	452	8,303	X X X
8. 2001	14,428	8,444	7,024	2,285			3,265	414	1,231	250	682	14,555	X X X
9. 2002	34,341	6,503	10,953	4,089			6,049	725	2,572	394	1,611	42,204	X X X
10. 2003	35,790	6,667	21,148	9,428			8,945	1,841	3,665	497	2,392	51,115	X X X
11. 2004	62,782	2,683	62,562	8,273			19,664	1,199	9,311	1,258	5,067	140,906	X X X
12. Totals	176,570	36,334	116,743	28,961			43,671	5,201	19,158	2,960	10,979	282,686	X X X

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred / Premiums Earned)			Nontabular Discount		34 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount	
	26 Direct and Assumed	27 Ceded	28 Net	29 Direct and Assumed	30 Ceded	31 Net	32 Loss	33 Loss Expense		35 Losses Unpaid	36 Loss Expenses Unpaid
1. Prior	X X X	X X X	X X X	X X X	X X X	X X X			X X X	10,771	867
2. 1995	127,888	7,122	120,766	67.041	38.483	70.109			13.300	747	128
3. 1996	156,618	16,075	140,543	77.864	66.748	79.376			13.300	1,309	251
4. 1997	174,743	31,130	143,613	76.290	80.350	75.463			13.300	1,787	427
5. 1998	214,995	59,369	155,626	80.810	114.475	72.659			13.300	3,352	1,114
6. 1999	207,313	42,350	164,963	84.105	109.843	79.333			13.300	3,389	1,461
7. 2000	197,713	33,177	164,536	84.116	109.452	80.365			13.300	6,007	2,296
8. 2001	195,233	34,090	161,143	77.558	98.546	74.214			13.300	10,723	3,832
9. 2002	231,667	53,536	178,131	69.829	68.620	70.201			13.300	34,702	7,502
10. 2003	225,611	44,177	181,434	60.181	70.404	58.126			13.300	40,843	10,272
11. 2004	245,652	17,882	227,770	64.651	56.204	65.423			13.300	114,388	26,518
12. Totals	X X X	X X X	X X X	X X X	X X X	X X X			X X X	228,018	54,668

Note: Parts 2 and 4 are gross of all discounting, including tabular discounting. Part 1 is gross of only nontabular discounting, which is reported in Columns 32 and 33 of Part 1. The tabular discount, if any, is reported in the Notes to Financial Statements which will reconcile Part 1 with Parts 2 and 4.

SCHEDULE P-PART 2-SUMMARY

Years in Which Losses Were Incurred	Incurred Net Losses and Defense and Cost Containment Expenses Reported At Year End (\$000 OMITTED)										DEVELOPMENT	
	1	2	3	4	5	6	7	8	9	10	11	12
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	One Year	Two Year
1. Prior	83,410	80,095	79,860	82,055	83,003	82,533	79,555	83,870	83,676	84,372	696	502
2. 1995	118,697	112,811	111,442	111,245	111,488	111,354	110,451	111,026	110,989	110,354	(635)	(672)
3. 1996	X X X	130,728	129,006	129,271	128,715	129,008	129,255	129,782	129,517	128,619	(898)	(1,163)
4. 1997	X X X	X X X	124,568	128,604	128,676	128,623	128,622	128,844	129,240	129,579	339	735
5. 1998	X X X	X X X	X X X	137,110	136,928	136,912	137,142	136,700	137,420	139,064	1,644	2,364
6. 1999	X X X	X X X	X X X	X X X	137,457	140,634	142,600	144,619	146,369	147,916	1,547	3,297
7. 2000	X X X	X X X	X X X	X X X	X X X	136,470	142,658	145,312	148,164	148,270	106	2,958
8. 2001	X X X	X X X	X X X	X X X	X X X	X X X	142,593	139,596	142,172	144,955	2,783	5,359
9. 2002	X X X	X X X	X X X	X X X	X X X	X X X	X X X	164,116	166,103	165,653	(450)	1,537
10. 2003	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	163,521	161,525	(1,996)	X X X
11. 2004	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	205,665	X X X	X X X
12. Totals											3,136	14,917

SCHEDULE P-PART 3-SUMMARY

Years in Which Losses Were Incurred	Cumulative Paid Net Losses and Defense and Cost Containment Expenses Reported At Year End (\$000 OMITTED)										11	12
	1	2	3	4	5	6	7	8	9	10	Number of Claims Closed With Loss Payment	Number of Claims Closed Without Loss Payment
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		
1. Prior	000	26,778	19,790	54,862	60,772	64,301	67,148	70,081	71,424	72,161	X X X	X X X
2. 1995	53,319	80,924	92,582	100,108	104,705	107,144	108,578	109,057	109,414	109,431	X X X	X X X
3. 1996	X X X	69,328	97,174	108,924	117,774	122,444	125,769	127,022	127,409	127,095	X X X	X X X
4. 1997	X X X	X X X	62,226	92,994	107,645	116,844	122,235	124,847	126,395	127,457	X X X	X X X
5. 1998	X X X	X X X	X X X	66,499	99,868	115,896	124,485	129,718	132,732	134,922	X X X	X X X
6. 1999	X X X	X X X	X X X	X X X	69,869	105,279	121,980	132,915	138,618	143,384	X X X	X X X
7. 2000	X X X	X X X	X X X	X X X	X X X	69,349	107,125	124,257	134,363	140,222	X X X	X X X
8. 2001	X X X	X X X	X X X	X X X	X X X	X X X	70,591	105,762	120,358	131,117	X X X	X X X
9. 2002	X X X	X X X	X X X	X X X	X X X	X X X	X X X	66,388	105,478	124,907	X X X	X X X
10. 2003	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	76,215	113,496	X X X	X X X
11. 2004	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	72,584	X X X	X X X

SCHEDULE P-PART 4-SUMMARY

Years in Which Losses Were Incurred	Bulk and IBNR Reserves On Net Losses and Defense and Cost Containment Expenses Reported At Year End (\$000 OMITTED)									
	1	2	3	4	5	6	7	8	9	10
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1. Prior	24,355	12,518	9,559	8,290	5,873	4,656	3,367	5,070	8,662	4,627
2. 1995	33,341	11,595	6,211	3,359	2,210	1,475	558	689	960	226
3. 1996	X X X	30,061	12,508	7,187	2,689	1,820	734	737	794	363
4. 1997	X X X	X X X	28,716	14,453	6,581	3,881	1,783	1,065	1,003	750
5. 1998	X X X	X X X	X X X	33,368	12,829	8,076	5,003	2,288	1,675	1,994
6. 1999	X X X	X X X	X X X	X X X	27,836	12,363	7,225	3,846	2,272	2,785
7. 2000	X X X	X X X	X X X	X X X	X X X	25,393	14,126	8,256	5,157	4,151
8. 2001	X X X	X X X	X X X	X X X	X X X	X X X	28,876	15,013	7,115	7,590
9. 2002	X X X	X X X	X X X	X X X	X X X	X X X	X X X	57,930	29,736	12,188
10. 2003	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	38,261	18,824
11. 2004	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	72,754

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN
Allocated by States and Territories

States, Etc.	1 Is Insurer Licensed? (Yes or No)	Gross Premiums, Including Policy and Membership Fees Less Return Premiums and Premiums on Policies Not Taken		4 Dividends Paid or Credited to Policyholders on Direct Business	5 Direct Losses Paid (Deducting Salvage)	6 Direct Losses Incurred	7 Direct Losses Unpaid	8 Finance and Service Charges Not Included in Premiums	9 Direct Premium Written for Federal Purchasing Groups (Included in Col. 2)
		2 Direct Premiums Written	3 Direct Premiums Earned						
1. Alabama	AL	NO							
2. Alaska	AK	NO							
3. Arizona	AZ	YES	886,667	978,117	1,872,488	(2,357,604)	2,427,844	4,848	
4. Arkansas	AR	NO							
5. California	CA	YES	46,646,749	41,856,392	87,193,968	66,565,246	213,719,708	255,052	
6. Colorado	CO	NO							
7. Connecticut	CT	NO							
8. Delaware	DE	NO							
9. Dist. Columbia	DC	NO							
10. Florida	FL	NO							
11. Georgia	GA	NO							
12. Hawaii	HI	NO							
13. Idaho	ID	NO							
14. Illinois	IL	NO							
15. Indiana	IN	NO							
16. Iowa	IA	NO							
17. Kansas	KS	NO							
18. Kentucky	KY	NO							
19. Louisiana	LA	NO							
20. Maine	ME	NO							
21. Maryland	MD	NO							
22. Massachusetts	MA	NO							
23. Michigan	MI	NO							
24. Minnesota	MN	NO							
25. Mississippi	MS	NO							
26. Missouri	MO	NO							
27. Montana	MT	NO							
28. Nebraska	NE	NO							
29. Nevada	NV	NO							
30. New Hampshire	NH	NO							
31. New Jersey	NJ	NO							
32. New Mexico	NM	NO							
33. New York	NY	NO							
34. No. Carolina	NC	NO							
35. No. Dakota	ND	NO							
36. Ohio	OH	NO							
37. Oklahoma	OK	NO							
38. Oregon	OR	NO							
39. Pennsylvania	PA	NO							
40. Rhode Island	RI	NO							
41. So. Carolina	SC	NO							
42. So. Dakota	SD	NO							
43. Tennessee	TN	NO							
44. Texas	TX	NO							
45. Utah	UT	NO							
46. Vermont	VT	NO							
47. Virginia	VA	NO							
48. Washington	WA	NO							
49. West Virginia	WV	NO							
50. Wisconsin	WI	NO							
51. Wyoming	WY	NO							
52. American Samoa	AS	NO							
53. Guam	GU	NO							
54. Puerto Rico	PR	NO							
55. U.S. Virgin Islands	VI	NO							
56. Canada	CN	NO							
57. Aggregate other alien	OT	XXX							
58. Totals	(a) 2		47,533,416	42,834,509	89,066,456	64,207,642	216,147,552	259,900	

DETAILS OF WRITE-INS									
5701.	XXX								
5702.	XXX								
5703.	XXX								
5798. Summary of remaining write-ins for Line 57 from overflow page	XXX								
5799. Totals (Lines 5701 through 5703 + 5798) (Line 57 above)	XXX								

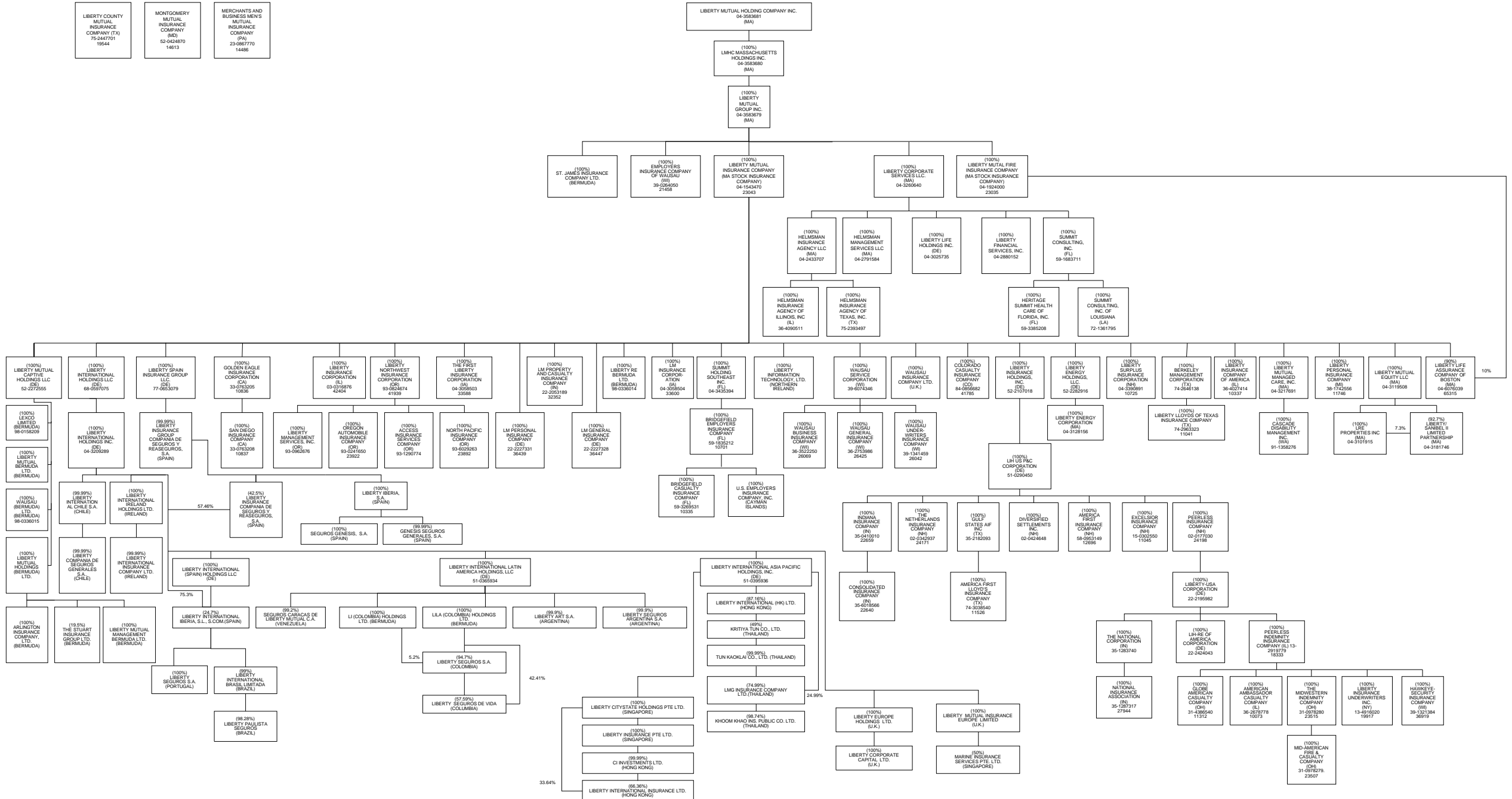
Explanation of basis of allocation of premiums by states, etc.

- *Location of coverage - Fire, Allied Lines, Homeowners Multi Peril, Commercial Multi Peril, Earthquake, Boiler and Machinery
- *States of Jurisdiction under which payrolls and resulting premiums are developed - Worker's Compensation
- *Location of Principal place of garaging of each individual car - Auto Liability, Auto Physical Damage
- *Principal Location of business or location of coverage - Liability other than Auto, Fidelity
- *Point of origin of shipment or principal location of assured - Inland Marine
- *State in which employees regularly work - Group Accident and Health
- *Location of Court - Surety
- *Address of Assured - Other Accident and Health
- *Location of Properties covered - Burglary and Theft
- *Principal Location of Assured - Ocean Marine, Credit
- *Primary residence of Assured - Aircraft (all perils)

(a) Insert the number of yes responses except for Canada and Other Alien.

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART



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OVERFLOW PAGE FOR WRITE-INS

OVERFLOW PAGE FOR WRITE-INS

**Page 2 - Continuation
ASSETS**

	Current Year			Prior Year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 Net Admitted Assets

REMAINING WRITE-INS AGGREGATED AT LINE 9 FOR INVESTED ASSETS

0904.				
0905.				
0906.				
0907.				
0908.				
0909.				
0910.				
0911.				
0912.				
0913.				
0914.				
0915.				
0916.				
0917.				
0918.				
0919.				
0920.				
0921.				
0922.				
0923.				
0924.				
0925.				
0997. Totals (Lines 0904 through 0925) (Page 2, Line 0998)				

REMAINING WRITE-INS AGGREGATED AT LINE 23 FOR OTHER THAN INVESTED ASSETS

2304. Amounts receivable under high deductible policies				5,695,166
2305.				
2306.				
2307.				
2308.				
2309.				
2310.				
2311.				
2312.				
2313.				
2314.				
2315.				
2316.				
2317.				
2318.				
2319.				
2320.				
2321.				
2322.				
2323.				
2324.				
2325.				
2397. Totals (Lines 2304 through 2325) (Page 2, Line 2398)				5,695,166

OVERFLOW PAGE FOR WRITE-INS

**Page 3 - Continuation
LIABILITIES, SURPLUS AND OTHER FUNDS**

	1 Current Year	2 Prior Year
REMAINING WRITE-INS AGGREGATED AT LINE 23 FOR LIABILITIES		
2304. Pooled retroactive reinsurance		(53,918,768)
2305. NC private passenger auto escrow		16,771
2306.		
2307.		
2308.		
2309.		
2310.		
2311.		
2312.		
2313.		
2314.		
2315.		
2316.		
2317.		
2318.		
2319.		
2320.		
2321.		
2322.		
2323.		
2324.		
2325.		
2397. Totals (Lines 2304 through 2325) (Page 3, Line 2398)		(53,901,997)
REMAINING WRITE-INS AGGREGATED AT LINE 27 FOR SPECIAL SURPLUS FUNDS		
2704.		
2705.		
2706.		
2707.		
2708.		
2709.		
2710.		
2711.		
2712.		
2713.		
2714.		
2715.		
2716.		
2717.		
2718.		
2719.		
2720.		
2721.		
2722.		
2723.		
2724.		
2725.		
2797. Totals (Lines 2704 through 2725) (Page 3, Line 2798)		
REMAINING WRITE-INS AGGREGATED AT LINE 30 FOR OTHER THAN SPECIAL SURPLUS FUNDS		
3004.		
3005.		
3006.		
3007.		
3008.		
3009.		
3010.		
3011.		
3012.		
3013.		
3014.		
3015.		
3016.		
3017.		
3018.		
3019.		
3020.		
3021.		
3022.		
3023.		
3024.		
3025.		
3097. Totals (Lines 3004 through 3025) (Page 3, Line 3098)		